CREDIT
and Financial Management

Photo—Philip Gendreau, NY

THE "OPEN ROAD"

AUGUST 1946. In This Issue—Water In Your Backlog—New Property Law in Oklahoma—Adventure in Realism—Employee Loyalty as a Business Asset—Incentives for Executives.

They *should* cost more than others

Credit *Interchange Bureaus* of the NATIONAL ASSOCIATION of CREDIT MEN

CENTRAL OFFICES
1154 Paul Brown Building
ST. LOUIS 1, MO.

Report on ------- ILL.
----- COUNTY
JULY 16, 1946

------ SUPPLY CO.,

The accuracy of this Report is not guaranteed. Its contents are gathered in good faith from members and sent to you by this Bureau without liability for negligence in procuring, collecting, communicating or failing to communicate the information so gathered.

Business Classification	How Long Sold	Date of Last Sale	Highest Recent Credit	Now Owing (Including Notes)	Past Due	Terms of Sale	Paying Record: Discounts	Paying Record: Pays When Due	Paying Record: Days Slow	Comments
CHICAGO 628-522 Adv Hdwe Metal Ind S Ind S Ind S	yrs yrs yrs yrs yrs yrs	4-46 2-46 3-46 6-46 6-46 6-46	1097 40 245 688 37 5665	73 25 1057	12	N 30 30 30 2-10-30 2-10-30 2-10-30	x	x x x x x	30 15	Improving Unfilled order $890
PITTSBURGH 627-11 Metal Ind S	yrs 1943	6-46 7-46	4790 3418	2354 1241		30 2-10-30		x x		No change
ST. LOUIS 702-656 Sta I & S	yrs 1941	5-46 6-46	580 4950	1890		30 2-15		x x		
LOUISVILLE 702-348 Hdwe	yrs	6-46	6000	3857		2-10-60	x	x	10	Improving
MILWAUKEE 702-240 Htg Hdwe	yrs 1940	4-46 5-46	862 107			2-10 Px 30	x		15	
CLEVELAND 702-459 I & S Ind S	yrs yrs	6-46 3-46	23002 704	11445		2-15 Px 2-10-30	x		30	
MINNESOTA 702-146 Hdwe	yrs	5-46	853	724	544	30		x	15	No change
				22666	556					
Bu 3 MAF										

. . . *but the fact is, measured in dollars and cents, Credit Interchange Reports cost less.*

Credit Interchange is a *non-profit* organization, owned and controlled by Credit Executives themselves. Its sole purpose is to furnish up-to-date credit *facts* to its members at the lowest possible cost.

Credit Interchange files contain an unbelievable accumulation of ledger experience information. Thousands of brand-new reports are added each day!

Each Credit Interchange Report contains the kind of information you need—cold, hard, impartial, dependable, up-to-date *facts.*

Credit Executives who are not using these reports are missing a most important cog in the credit machinery.

Ask the Bureau serving your area for detailed information, or write

Credit Interchange Bureaus
NATIONAL ASSOCIATION of CREDIT MEN
1154 Paul Brown Building . . . ST. LOUIS 1, MO.

"For Service Only"

CREDIT INTERCHANGE BUREAUS
NATIONAL ASSOCIATION OF CREDIT MEN
ORGANIZED
VIGILANTIA
1896

REG U.S. PAT. OFF.

Offices in more than 50 principal cities.

CREDIT
AND FINANCIAL MANAGEMENT

Contents
AUGUST 1946

VOLUME 48, NO. 8

Official Publication of National Association of Credit Men

1309 Noble St.
Philadelphia 23, Pa.

One Park Avenue,
New York 16, N. Y.

Editor and Manager
Richard G. Tobin

Associate Editor
Leslie E. Jones

ESTABLISHED 1898

Published on the first of each month by the National Association of Credit Men, 1309 Noble Street, Philadelphia 23, Pennsylvania. Entered as second class matter December 22, 1933, at the Post Office at Philadelphia, Pa., under the Act of March 3, 1879. Subscription price $3.00 per year, 25¢ per copy; Canada, $3.50; all other countries, $4.00 postpaid.

Credit Statesmanship

When the needs of the world are under review, "credit" is usually listed as a primary requisite. The devastated lands and the undeveloped regions, the most progressive and civilized peoples and the most primitive, all require credit. If these needs are judiciously supplied, and if the credit is accepted with a deep appreciation of the character of the trust implied in it, the world will be led to a sound recovery.

Credit is a delicate governor of the state of the world. It is the means through which we energize the industry of people to a common goal and a better way of life.

We in America, called upon as we are to furnish credit for the world's needs, have a great responsibility. It is our duty not to cheapen it nor to confuse it with charity. It is our responsibility to recognize it as a powerful weapon for good or evil; and it is our duty to direct it into sound channels. The way to distribute credit soundly to the world is to ensure its soundness at home. The credit we develop here must be of unmistakable quality.

As credit executives, you in your daily tasks have the opportunity to establish a sound credit base. Upon this foundation, world credit can be more securely built. As a citizen you have the responsibility to use your best effort to ensure a sound credit for the Nation.

The future of the world is inseparably linked with credit statesmanship. It is the credit diplomacy of today that will determine the tomorrow of your children. Our profession offers the greatest opportunity the world has ever presented to a group of men and women. Prepare now to discharge it.

Henry H. Heimann

HENRY H. HEIMANN,
EXECUTIVE MANAGER

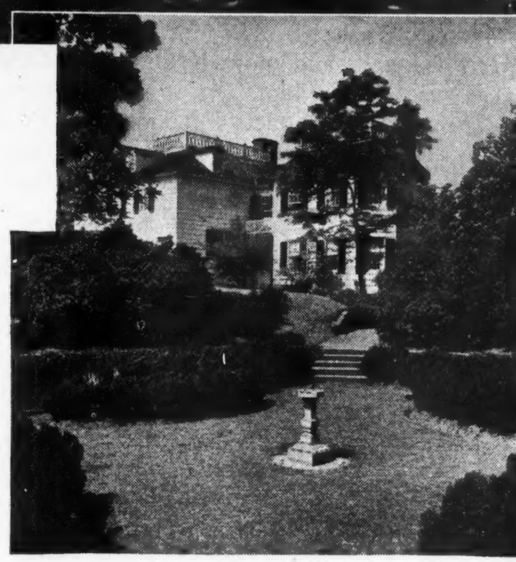
The Country Home on Harlem Heights

Sometime during the early morning hours of September 15, 1776, General George Washington entered the stately hallway of the Roger Morris summer home on Harlem Heights where his official Headquarters were established two days after the battle of Long Island and the day after the evacuation of New York City. For a period of about five weeks, General Washington occupied the north room on the second floor as his office and bedroom and it was there that he and his staff planned some of the strategy and battles that were to eventually lead to American Independence.

This magnificent Georgian mansion which has been completely restored, is now a museum owned and maintained by the City of New York and is under the custodianship of the Washington Headquarters Association of the Daughters of the American Revolution.

Washington's office in the Roger Morris house.

At the time Roger Morris chose this site for his country home, New York City was ten miles to the south. The original plot consisted of 100 acres which "commanded the finest Prospect in the whole Country: the Land runs from River to River: there is Fishing, Oystering, and Claming at either end . . ." The house was begun in 1765 and was completed in the summer of 1766 in time for Lieutenant-Colonel and Mrs. Morris to close their town house at the corner of Whitehall and Stone streets and escape from the intense heat of the city. During the builder's ten year tenancy, the house was the scene of many brilliant Colonial affairs, for Mrs. Morris, who had been the wealthy and popular Mary Philipse of Philipse Manor, had a large circle of friends, including George Washington. In fact some historians claim that Washington himself was seriously interested in Miss Philipse before she married Roger Morris.



The view from the formal garden.

At the outbreak of the Revolution, Morris, who was an ardent Tory, fled to England. The mansion was captured by the British after Washington and his staff fled, and for seven years it was used as British or Hessian Headquarters until the British evacuated New York.

Today, the house stands as a monument representative of a colorful period in American history.

The Home, through its agents and brokers, is America's leading insurance protector of American Homes and the Homes of American Industry.

☆ THE HOME ☆
Insurance Company
NEW YORK

FIRE • AUTOMOBILE • MARINE INSURANCE

WATER IN YOUR BACKLOG

All That Glitters Is Not Gold

by IVAN L. HILLMAN
General Credit Manager
DRAVO CORPORATION
Pittsburgh

In searching about for basic information on my subject, my mind drifted to that oft-quoted gem, ascribed to Darius the Persian, which I quote—"There are four sorts of men—

He who knows not, and knows not he knows not, is a fool—shun him;
He who knows not, and knows he knows not, is simple—teach him;
He who knows, and knows not he knows, is asleep—wake him;
He who knows, and knows he knows, is wise—follow him."

In my quest for facts I found *no wise men,* none asleep, but several simple men and I felt relieved.

Backlog means any sustaining reserve. There are many things, therefore, to which it is applicable, including contingencies, unfilled orders, mineral deposits, immigration, men etc. All, or most of those mentioned, might be fairly capable of containing water.

I will confine my subject to what I deem its two most important branches at the present time—*the backlog of unfilled orders* and *the backlog of men.*

Let us consider first, the backlog of unfilled orders. Some companies have made the news recently because of their outstanding volume of orders on hand.

The United Aircraft Corporation was reported by Chairman Renschler at the Annual Stockholders' Meeting to have enough orders on hand to keep its 20,000 workers busy until mid 1947.

Otis Elevator Company has sufficient orders to maintain operations at a high level until 1947.

Burroughs Adding Machine Company's unfilled orders at March 31 exceeded $40,000,000—a 15% increase since December 31.

Continental Motors' backlog stands at more than $100,000,000 and its delivery schedules call for over 700,000 engines during the next two years.

Worthington Pump & Machinery Corporation has orders on hand of approximately $50,000,000, and President Searle states that "an excellent volume is indicated for some time ahead".

American Car & Foundry Companys, backlog of orders is valued at $125,000,000—more than a 50% increase since the end of 1945.

American Locomotive Company reports the largest peacetime figure in the company's history at $100,000,000.

Automobile Manufacturers have predicted markets for new cars ranging from 10,000,000 in the next three years, according to President Thomas of Chrysler Export Corporation, to 30,000,000 within the next five years, as estimated by President Frazer of Kaiser-Frazer Corporation.

Recently, Ford dealers reported orders on hand of 740,000 cars and 260,000 trucks, while Kaiser-Frazer Corporation reported orders for the new Kaiser-Frazer models of approximately 650,000 units.

Blaw-Knox Company reports bookings since V-J Day for peacetime products at the greatest rate in the history of the company.

The companies I have mentioned are in the durable goods industries. Many manufacturers in the so-called nondurable goods industries, such as chemicals, food, paper and associated products and textile mill products have also reached their all-time peak in unfilled peacetime orders.

Easily Understood

It is easy to understand why there should be a backlog of unfilled orders at this time. The demand for durable and nondurable goods could not be supplied in sufficient quantities to satisfy the needs or wants of 140,000,000 people engaged in an all-out war effort, and the overdemand backed up. The energy, wealth and ingenuity to produce such goods had to be applied to producing expandable materials of war, so that numerous items of luxury goods and many items which we had come to regard at necessities, including automobiles, ranges, heaters, irons, new houses and many other products could not be obtained.

Factories which were working around the clock, seven days a week, fifty-two weeks a year, had to defer plant maintenance and forego much needed betterments, improvements and additions.

For example, Class 1 railroads, which did such an outstanding transportation job during the war, reported that 90% of the locomotives available in 1945 were built before the depression, and that there were 25% less locomotives in operation at the beginning of the war than at the end of 1930. Their big task was accomplished through an increase in hauling power and speed-up of operations. Other industries, confronted with conditions similar to the railroads, solved their difficulties by equally smart planning.

"Water"

A backlog of unfilled orders in every industry is usually a healthy sign. It makes for stabilization of employment, efficiency of manufacturing procedures and reduction of production costs. It gives the

worker, as well as management, a feeling of security and well-being, and thus contributes to the improvement of our industrial and social economy.

However, there are signs which indicate that the tremendous backlog of unfilled orders is not all sterling, not all pure gold, but that it is admixed with dross — adulterated. We can call such adulteration "water". In my research I could not find a yardstick or other instrument for determining the exact dollar amount or quantity of water in this backlog.

Evidence is quite strong which indicates that orders are being placed by consumers at several places simultaneously for the same article, with the intent of taking the first one that becomes available — then canceling all unfilled orders. For example, a housewife places orders for an electric washing machine with half a dozen dealers. She needs only one machine, but she feels that one of the six dealers will be able to procure her machine before any of the others. As soon as she receives delivery of a machine, she cancels her orders with the other five dealers. This method of buying is being carried out on a nation-wide scale.

Pyramiding of Orders

Dealers, and jobbers in turn, are ordering from manufacturers in quantities based on the indicated consumer demand, and in addition, hoping to obtain reasonable quantities quickly, they are placing single orders for quantities large enough to cover their requirements, not with just one source of supply, as they would under normal conditions, but with several sources of supply at the same time, with the objective that under piecemeal allotment of shipments, enough goods will be obtained to fill all their orders. When that point is reached, they will then endeavor to cancel, as gracefully as they can, the unfilled orders.

This pyramiding of orders by dealers with jobbers, and in turn by jobbers with manufacturers, has in frequent cases given manufacturers a false impression of the demand for their products. Based on this unprecedented demand, some manufacturers engage in a program of plant expansion, freeze much needed working capital in permanent assets, and may eventually find themselves in financial difficulties.

In their quotations, as well as their acknowledgments of orders, most of the larger companies endeavor to indemnify themselves by stipulating the conditions of cancelation. In addition, they usually protect themselves from increases; both in their own manufacturing costs and also from increased costs of materials they must procure from others, by inserting escalator clauses in their quotations. Some of the smaller companies overlook these safeguards and frequently find themselves in a very difficult position when cancelations start pouring in.

Cancellations

As has been the practice for years in American industry, cancellation of many orders will be accepted without charge — for reciprocity reasons, for retention of good-will, for expectation of future orders and, in some cases, in order to forego the nuisance cost of collecting cancellation charges by legal means. It is safe to predict, therefore, that cancellations of millions of dollars of orders will be accomplished without invoking these protective clauses.

The Civilian Production Administration exerts a restraining influence on duplication of orders in certain products through the allocation of scarce materials.

Credit and business executives are concerned with the effect the widespread cancelation of such duplicated orders might have on our business, social and political economy.

Could it cause liquidation of concerns that have unwisely expanded their plants?

Could it bring financial embarrassment to many old line firms whose management was caught off guard and bring about assignments, composition settlements and receiverships with attendant bad debt losses to creditors?

Could it affect the whole price structure by forcing the liquidation of abnormal inventories — a sample of which we had during the latter part of 1937?

Could it produce extensive unemployment with the attendant relief and bread line problems?

Could it create a situation which would give the Federal Government another opportunity and an excuse to undermine further our free enterprise system and hasten the establishment of a planned economy under the direct control of Washington?

No Serious Results Yet

It would be folly to predict that any of the above consequences or others even more disastrous will develop out of this duplicate order condition. I think it is reasonably safe to forecast that no serious results on a national scale will rise in the next three years — there will be a hardship case here and there, but we experience such cases under so-called normal business conditions. Goods freed by cancellation of duplicate orders will be absorbed readily during that period. Many industries are facing a shortage of basic raw materials. This is particularly true in the furniture business where suitable lumber is not available at any cost. More furniture of the future will be made from plastics and other synthetic substitutes.

If one had ample time to experiment with charts or graphs on this subject, one could try correlations between manufacturers' new orders as reported by the Department of Commerce and various other indicators of demand, such as volume of new construction contracts; increases in population resulting from births; immigration and shifts from one part of the country to another; national income payments and numerous indexes bearing on production, distribution and living costs.

Facts and Figures

On Page 139 in the April issue of the "Business Record", published by the National Industrial Conference Board, appears a table of indexes on manufacturers' orders, shipments and inventories from August 1945 through January 1946. A tabulation of manufacturers' new orders shows the following interesting figures:

(1939 = 100)	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
Total orders	133	166	180	183	181	183
Durable goods	53	121	160	171	170	175
Nondurable goods	181	194	193	191	188	188

On Page 33 of the January issue of the "Business Record" is a chart which shows manufacturers' new orders on electrical machinery and iron and steel with their associated products from January 1, 1939 through October, 1945. By extending the two curves for the figures given in the previous tabulation, we find that the range of new orders in the six months mentioned, namely August 1945 through January 1946, has been approximately the same as the range from the early part of 1940 to the end of that year.

Again, in the March issue of the "Business Record" on Page 94 is Chart No. 3 on construction contracts awarded and industrial production, which shows that industrial production in January 1946 was slightly higher than at the end of 1940.

During February, this index dropped from 169 to 154 (1935-1939 = 100), still remaining somewhat higher than at the end of 1940 when it stood at approximately 125. A rough comparison or ratio between orders and the general level of industrial activity indicates that the situation in recent months is not much different than it was at the end of 1940. This comparison in itself does not prove whether the situation is sound or unsound, but it affords something of a factual basis from which to reason.

Other Influences

Any factual information from which an attempt is made to forecast the future based on occurrences in the past must, of course, be supplemented by the effect produced by strikes of labor, OPA price regulations, and any other causes which impede the reconversion processes and interfere with full scale production.

Those of you who are interested in studying this matter further can turn to Page 421 of the December 1945 issue of the "Business Record" where you will find a table giving the indexes of manufacturers' new orders from July 1939 through June 1945. This table gives the ratio of each month during that period to the average monthly figures for 1939. (In other words, the monthly average for 1939 = 100.) It is set up to show the durable goods industries segregated under—(1) iron and steel, (2) electrical machinery, (3) other machinery, (4) other, (5) total durable goods and total nondurable goods industries.

The statistics just considered do not take into account the effect of ultimate price increases arising from adjusted labor rates, nor do they reflect black market operations which in some parts of the construction industry are said to have doubled costs.

Escalator Clauses

While I think it is generally understood from what appears above, let me emphasize that the real advantage which accrues to industry from a backlog of unfilled orders is the net profit which will ultimately be realized therefrom. With the spiral of labor and material costs moving upward at an ever accelerated rate, it is most important that industry employ escalator clauses. Otherwise, the profit margin may be wiped out completely and the backlog of unfilled orders, instead of reflecting a healthy condition, will actually portend an unsound one. It is to your interest, therefore, as credit and financial executives to know that your customers are accepting orders subject to adequate protection against increased costs resulting from rising prices for material and labor.

After analyzing such data and information as I had available and tempering them with my own viewpoint, it is my opinion that "the water in your backlog" will create no serious credit or financial problems in the immediate future, and that you and I and other similar groups throughout the country can direct our full energies toward bringing about a speedy reconciliation between labor, management and Government, so that production can go forward under full steam.

Backlog of Men

For a few minutes let us consider the backlog of men. I shall limit my remarks to only one segment of the problem — cooperation of industry and educational institutions for the purpose of making available the best educational training programs for students that are in industry, or intend to enter industry upon graduation.

Of the twelve million-odd men and women who served in the armed forces during World War II, it is estimated that 40% of them will pursue vocational studies at Governmental expense, including 25% at college level. Some of these men and women will be resuming their college training which was interrupted by the war. Others will have entered colleges for the first time, and many will be registered as special or part-time students. Some will abandon their educational programs in a short time. This abandonment has already been evidenced during the current school year. It is a normal condition, for it takes qualities of persistence, alertness, patience and zeal to acquire a college education, and these qualities are not automatically acquired by experiencing the rigors of war on the battle fronts.

Our problem then deals with the three million service men and women who are expected to pursue college studies, as well as millions of others who have already enrolled, or will enroll during the coming years. How can educators and industry cooperate to provide the maximum returns to students, to industry and in turn to the national and world economies? How can the water be squeezed out of the educational program for this enormous backlog of men and women, so they will receive the ultimate in effective training?

Businessmen and Educators

This problem is receiving very careful consideration by influential groups throughout the country. The National Association of Manufacturers, through its Pittsburgh Education-Industry Committee, has sponsored for the past two years a series of conferences between educational and industrial leaders to discuss mutual problems. The Committee, in its effort to work out a practical plan under which training in industry and commerce, with proper scholastic credits, will be made available to college students in the Pittsburgh area, has invited a group of industrialists and educators to express their views and weighted opinions on certain fundamental questions. This group consists of 33 Pittsburgh industrialists, 13 educators from Carnegie Institute of Technology, 11 from the University of Pittsburgh, 8 from Duquesne

University and 6 from Pennsylvania College for Women. These fundamental questions are:

1. What does education want industry to do in Pittsburgh at the college level?
2. What is education doing for industry in Pittsburgh at the college level?
3. What would be your suggestion on how industry and education can get together on a practical plan to cooperate in assisting each other?

It is the intention of the Committee to incorporate its replies in a report which will be mimeographed and distributed in booklet form.

What Education Wants

As a representative of education, I have been invited to express my views which I quote briefly:

1. Education wants industry to pay college graduates a reasonable living wage. Students that spend four years in college training and have shown enough initiative and ability to be awarded a college degree should be worth more than common labor if their services are properly utilized.
2. Industry wants education to provide practical training for students, so that when they become employees they will have more than theoretical knowledge. Perhaps this can be best accomplished by using more instructors and professors with actual business experience, along with their academic qualifications on the college staff.
3. I would recommend that a qualified committee representing all Pittsburgh industries should sit down with the governing bodies of the universities, their officers, directors, trustees and deans, and discuss the curriculum for specific courses — such as all phases of engineering, accounting, finance and business administration. They should plan together so that educators will know what industry expects, and industry will better understand what it is going to get when it employs a student who has satisfactorily completed a certain course of training. An employer should know, within reasonable limits, the degree of skill and scope of knowledge of an employee that is labeled with a college degree — say in civil engineering or electrical engineering, or administrative accounting. No penalty would be put on the outstanding student for creative imagination above the minimum requirements. The minimum requirements would serve as a basic point from which students would either rise or fall.

I do not know how extensively the plan of cooperative education has been adopted throughout the country. To my knowledge, one of the oldest schools to adopt such a plan is the University of Cincinnati, under which the student pursues his studies for a period of months at the University and then applies the knowledge thus acquired to gainful employment for a corresponding period of months. This procedure continues until he has earned sufficient college credits to meet the requirements for a degree.

In Pittsburgh in the late twenties, the old Pittsburgh School of Accountancy, now known as the Robert Morris School of Business, adopted a cooperative plan under which the students attended school in the mornings and worked in industry during the afternoons for the purpose of acquiring practical experience, and without obligation for compensation by the firms using their services.

I cooperated with the school in its training program to the extent of giving four such students practical, on-the-job training. Results were good, and later two of the young men were given permanent employment with my firm. This cooperative plan gives industry an opportunity to do something constructive in the general educational program and also affords it an opportunity to line up some excellent prospective employees.

If, in my discussion of these two aspects of "water in your backlog" —namely, as it applies to unfilled orders and as it applies to college training of men, I have given you any ideas or stimulated your thinking which will culminate in positive action, I will feel amply repaid.

Low Quality Goods Hurt U. S. Prestige Credit Men Contend

That American goods are likely to lose prestige in foreign markets because of the low quality which exporters have been sending abroad was one of the contentions made at the round table conference sponsored by the Foreign Credit Interchange Bureau of the *National Association of Credit Men* at the Pennsylvania Hotel.

It was reported that a large number of complaints have been coming from South Africa regarding poor quality goods which have been received from the United States in all categories from "barbed wire to textiles."

George E. Quisenberry, vice-president of Business Publishers' International Corp., and a member of the discussion panel of the round table conference, said that while it was undoubtedly true that many complaints were coming in, nevertheless they were comparatively few when the vast amount of exports that Americans had shipped were taken into consideration. While he admitted that some pretty shoddy goods may have been shipped, he said he felt that fault could be laid, at least in part, to hampering Governmental restrictions.

An executive of the New York Port of Authority, concurred with Mr. Quisenberry that the complaints received, when compared with the great amount of exports, was relatively small.

Discuss Black List

An exporter complained that the black list against foreign firms which had been in force should not have been abolished at this time. He contended that, with American production getting into its stride, such firms, which had formerly been enemies, would now receive equal consideration with foreign firms that had been friendly, and said he felt that the black list should have remained in force for several years longer.

P. M. Haight, retired, formerly chairman of the conference, introduced to the meeting E. L. Blaine, Jr., vice-president of the Peoples National Bank of Washington, Seattle, recently elected president of the National Association of Credit Men. Mr. Haight is also a past national president.

Otto Kreuser, second vice-president, Chase National Bank, was chairman of the meeting which was directed by Philip J. Gray, conference manager. The discussion panel was composed of Fred R. Pinter, vice-president of Corneliussen & Stakgold, Inc., and Mr. Quisenberry. C. A. Richards, director of International Division Interchemical Corp., who also had been listed as a member of the panel, was absent because of the death of his brother.

NEW PROPERTY LAW IN OKLAHOMA

Community Statute Interests Credit Men

by HARRY W. PRIEST

Attorney-at-Law
PRIEST AND BELISLE
OKLAHOMA CITY

The community property law of the State of Oklahoma, now in force, became effective July 26, 1945. Sufficient time has not elapsed for the Supreme Court of Oklahoma to have construed the various provisions of this Statute. It has attracted the attention of all of the people of this State because of its effect upon income taxes.

The credit man is vitally interested insofar as this Statute affects the extension of credit. It is the purpose of this article to deal with the community property law only insofar as it is of interest to the credit man with relation to the extension of credit, and all opinions expressed in this article pertain only to the laws of the State of Oklahoma.

Real property may be held as the separate property of either the husband or the wife, and, except the homestead, may be conveyed or mortgaged by the holder of the title without being joint in conveyance or mortgage by the other. Real property may be held by more than one individual in joint tenancy or in tenancy in common. Upon the death of a joint tenant, the entire estate passes to the survivor. Upon the death of tenant in common, the interest of the deceased in real property passes, in the absence of a will, to his heirs at law. Agreements between individuals for the right of survivorship are recognized as to personal property, and the practice is now quite common to have bonds, bank accounts and corporate stocks, when owned jointly, in such form that the title passes upon the death of one to the survivor or the survivors.

Separate Property Defined

The Statute relating to community property defines the separate property of the husband as: "All property of the husband, both real and personal, owned or claimed by him before marriage or before the effective date of this Act, whichever is later, and that acquired afterwards by gift, devise, or descent, or received as compensation for personal injuries, shall be his separate property." And separate property of the wife as: "All property of the wife, both real and personal, owned or claimed by her before marriage or before the effective date of this Act, whichever is later, and that acquired afterwards by gift, devise, or descent, or received as compensation for personal injuries, shall be her separate property."

Community property or common property as defined by the Statute is as follows: "All property acquired by either the husband or wife during marriage and after the effective date of this Act, except that which is the separate property of either as hereinabove defined, shall be deemed the community or common property of the husband and wife, and each shall be vested with an undivided one-half interest therein; and all the effects which the husband and wife possess at the time the marriage may be dissolved shall be regarded as common effects or gains unless the contrary be satisfactorily proved."

Management and control of property is provided for by the Statute as follows: "The wife shall have the management and control and may dispose of her separate property, both real and personal, and that portion of the common or community property consisting of her earnings, all rents, interest, dividends, and other income from her separate property, and all other common or community property, the title to which stands in her name. The husband shall have the management and control and may dispose of his separate property, both real and personal, and all community property, the management, control, and disposition of which is not conferred upon the wife hereby."

Credit Hints

In extending credit, it is interesting to note from these provisions that either husband or wife may dispose of and contract as to community property under his or her management or control. In taking conveyances, bills of sale or mortgages upon either community or separate property, it would be advisable to have all such instruments executed by both husband and wife, but such instruments would be valid as against community property if executed by the person in whose name the title is vested to real property, and valid as to personal property if executed by the person having the same under his or her management or control. However, all instruments affecting the title of the homestead must be executed jointly by the husband and the wife.

Creditors' Position Improved

Community property, under the management, control and disposition of either, or which stands in the name of either, is liable for the debts contracted by him or her, and for torts committed in the course of acquiring, holding or managing Community Property, but such property is not liable for torts otherwise committed.

The creditors' position is improved by this law insofar as tort

actions are concerned. For example, should the individual engage in business, the property of which is community property, have a serious automobile accident while operating his automobile other than in connection with the business, then the assets of the business could not be levied on by reason of a judgment recovered growing out of such accident.

This provision, apparently, is a decided advantage to the credit man.

The question has been suggested as to the rights of community creditors against the individual property of either. I read an opinion by very capable local attorneys in which they expressed some doubt that the individual property is liable for community debts. It is my opinion that separate property of the individual contracting the debt in behalf of the community interest is liable for the community debt contracted by him or her.

It seems to be specifically provided in the Act that community property is liable for the payment of the debts or liabilities created by either husband or wife insofar as community property is concerned, which was under the management, control and disposition of the husband or wife incurring the indebtedness or liability at the time the debt or liability was contracted or created. In this connection, the Act provides that if the husband or the wife conveys or transfers to the other community property, the creditor may follow the same by legal process and satisfy his debt therefrom, contracted by the debtor while in possession of the property, and so long as it has not been transferred to an innocent purchaser.

Divorce

In the event of dissolution of marriage by divorce it is the duty of the court to divide between the husband and the wife the community property, and he may then render judgment for alimony which may be satisfied out of the community property of the person against whom the alimony judgment was rendered. We believe this provision of the Act construed in the light of the provisions referred to providing for following community property is to the advantage and not the disadvantage of the credit man.

We have in mind two cases arising in Oklahoma City where the debtor husband had substantial property rights; that a collusion was entered into whereby the wife sued the husband, asking for division of property and alimony. Then by agreement, substantial judgments were entered in favor of the wife, in fact, in sufficient amount to take all of the property of the husband, and in the cases we have in mind, all or practically all of the property was so taken in an effort to defraud creditors. In one of these cases, by prompt action through the Bankruptcy court, the bankruptcy petition having been filed within four (4) months which laid the foundation for recovery of a preference by operation of law, a settlement was procured by which all of the creditors were paid in full and the petition in bankruptcy dismissed. In the other case, creditors did not take action, the debtor waited four (4) months or until suits to recover preferences could not be started under the bankruptcy action, then filed a voluntary petition in bankruptcy, and in which case the creditors got nothing.

Under the community property Act, we believe, without the intervention of bankruptcy, the one-half of the community property transferred by the court in a divorce suit to the wife could be levied upon for community debts incurred in the management of community property by the husband.

Insanity

In the event of mental incapacity, conviction of a felony and sentence to imprisonment for more than one (1) year, abandonment by the husband of the wife and family, if there be family other than the wife, the wife or husband may, by proceeding in the District Court, procure a judgment finding the facts and authorizing him or her to continue the operation of the community property previously vested in the other.

I believe this provision is an advantage to the credit man. In most cases, however, where the control and management of any business is transferred to either the husband or the wife, not previously familiar with the conduct and management of the business, the credit man should be very careful in extending credit, and prompt action should be taken to collect existing indebtedness.

Death

Upon the death of the husband or the wife the community property does not go to the administrator or executor in the first instance, but the survivor administers the community property in the same manner provided by law for the administration of partnership assets by a surviving partner. The provision of the Statute for administering the assets of partnerships therefore is to be followed and under this the survivor takes the community property, is supposed to settle the community debts without delay and account to the executor or administrator and pay over to him or her one-half of the balance in money, or transfer one-half of the remaining property after settlement of debts to the executor or administrator. The Statute providing for administration of partnership assets provides that upon the filing of an application by the executor or administrator the Probate Court must in all cases require the surviving partner to give a good and sufficient bond for the honest and faithful disposal of the interest of the deceased in the partnership property, and for the prompt payment or transfer to the executor or administrator of his net interest in the partnership property.

In this connection, the Statute further provides that the surviving partner shall promptly prepare, in company with the executor or administrator, or some other person or persons to be appointed by the court, a correct inventory and appraisement of the partnership property, and that the executor or administrator shall be furnished with such inventory and appraisement.

The Statute prior to the passage of the community property Act provides that a surviving partner must in no case be appointed as administrator of the estate of the deceased partner.

Possible Danger

The Community Property Act repeals in effect this provision of the Statute, by providing that the surviving husband or wife is not disqualified to act as executor or administrator of the estate of a deceased partner.

This change in the law may create a very dangerous situation. When analyzed, it means that the surviving spouse is now required to act on one side with the powers and burden of a surviving partner in taking an inventory and making an appraisement which he must furnish to himself as administrator. Under the Statute, on winding up partnerships only the administrator or exectuor can require the giving of the bond for an accounting to the administrator. We, therefore, have a situation where the surviving spouse, in the nature of a surviving partner, is the only person who can apply to the court as administrator to compel him in his capacity as surviving partner to give to himself in his capacity as administrator a bond for the faithful performance of his duties and an accounting of the money and the property.

Dangers Avoidable

The dangers incident to the death of a partner can be, in many instances, by contract between the partners avoided, which contract should provide that in the event of the death of a partner, the executor or administrator of the estate is obligated to sell his interest in the business to the surviving partner or partners, and the surviving partner or partners are obligated to buy such interest if such agreement is entered into. The financial ability of the survivor to purchase such interest must, of course, be considered. This can be provided for, in many instances by an adequate life insurance policy on the life of each partner, premiums to be paid by the individual or by the partnership as the parties may agree and the benefits under the policy to be paid in a lump sum to the estate of the deceased partner and the purchase price of his interest in the business to be paid by the survivor or survivors to be credited with the amount received on such insurance policy. This arrangement has been made and satisfactorily carried out in some cases that have been probated since the passage of the community property law in Oklahoma County.

EDITOR'S NOTE: We hope in the near future to be able to present a further article on this subject which will deal with the Community Property Laws in other states.

Letter To The Editor

Credit Manager Plays Cinderella Role In His Firm

Editor,
Credit and Financial Management
National Assoc. of Credit Men,
1309 Noble Street,
Philadelphia 23, Pa.
Dear Sir:

I like the article "The Other Fellow's Shoes" by Mr. Sherwood in the June 1946 issue of *"Credit."* It really "hits the nail exactly on the head." I'm only an assistant credit manager so my opinion will not be so valuable but many of us "juniors" have all the details to follow and those ideas in your magazine help tremendously. I have been a regular reader for several years and have benefited from many articles.

In most credit departments—(and I don't speak from my own experience alone) there is a feeling of inferiority to the other departments of the office. Exactly why, I don't know—but I *do* know that it is definitely felt. For this reason, we are almost afraid to demand the cooperation of the Accounting Department, Accounts Payable and especially the Sales Department. Yet, those same departments insist on maintaining contacts and cooperating fully with each other. My knowledge of Accounting practice, especially Accounts Payable work was and still is a tremendous help to me in understanding the work of the Credit Department and especially the other fellow's problem.

Now my real purpose in writing to you—(and probably pestering you) is that I would like to see an article similar to Mr. Sherwood's concerning the training of others in the Credit Department. I think if all firms would include a week or two or a month training their Sales Trainees in the Credit Department it would help our lot in the office. We do not get the proper cooperation from the Sales Department — and many times the salesmen bear a continuous grudge to the Credit Men for turning down an order which they worked hard to obtain. They do not know why, exactly, as they have been told only a hazy part of credit routine. And of course it is hard on the salesmen also as many times they spend many hours — and perhaps days—breaking down sales resistance and then when the order is obtained, the Credit Manager has to turn it down for credit reasons (good and valid ones, too).

I know, from past issues of *Credit and Financial Management,* that you have been hammering away on this subject for a long, long time but from what I learn from other credit department members it has not resulted in the proper attitude from the Sales Departments.

So many firms are quite modern in all other methods of operation but still lag behind in the proper credit-sales relations. And I personally believe a better knowledge of credit and its functions would increase the number of orders actually entered into the production works. In our department, we have received, on many occasions, rather insulting letters from salesmen whose orders were turned down simply because the salesmen did not or would not heed a credit limit—or a caution from credit angles placed on a prospect by the Credit Department.

The 10 points for Sales Managers and Credit Managers in Dr. T. H. Smith's article in the May issue are very excellent but we doubt if they are followed by any of the larger firms. The Sales Manager's cooperation may be above reproach but if he doesn't relay this attitude to his staff, it doesn't improve the situation much.

I believe if you could assign a subject of this nature to someone who would handle it as Mr. Sherwood did in his article, I think it would fill a much-needed gap in business practice.

Forgive me for being so long winded, but I have observed with chagrin the many "digs" we, of the credit fraternity, have been obliged to swallow from the "superior" sales department.

Yours truly,
Hopeful.

KNOW YOUR CONSUMER CREDIT COSTS

Find Out How Your Outlets Handle Credit

by OTTO C. LORENZ
Lecturer and Writer on
INSTALMENT FINANCING

The word "costs" is a broad one. To some of you it will mean your own operating costs of handling credit. To others it will mean the cost of credit to the customer,—the service charge.

Both meanings are important to the retailer as he enters the post war period of competition for public favor. For he must provide the best credit service possible for the least money. If he is fully informed as to his own costs of handling credit, he is on the way to serving his customer at the lowest possible service charge for credit. If he doesn't know his own handling costs, he is on the way toward reducing his small margin of profit and toward making a mess of things generally in his community.

Dangerous Fallacy

One of the commonest arguments which the retailer offers to justify his indifference to his own handling costs is a very treacherous one,—to the retailer himself. He argues that his fixed overhead expense on a cash basis may run $100,000 a year. "If," says he, "I can add $500,000 to my volume of sales by giving credit to customers, then I'll reduce my overhead costs per dollar of sales and make more profit than ever." But he will not reduce his overhead cost per dollar of sales just by selling on credit. On the contrary,—he will add to his overhead cost per sale for he will need a whole new department to take proper care of the credit he gives to his customers. And while it is true that certain of his fixed expenses such as rent will not increase, and will therefore be less per dollar of sales as volume goes up he forgets that the added cost of a credit department which must be carried by every sale, cash or credit, may far exceed the economies affected by lowering the fixed expense cost per sale.

It is important, therefore, to know which way of handling credit costs the least. It is also important to know the cost of the credit service which is most desirable from the customer's point of view. The least expensive service to operate is not necessarily the one the customer likes best. Only the retailer who is thoroughly familiar with his operating costs will be able to exercise good judgment in planning his policy.

There are, broadly speaking, four ways by which the retailer can handle credit: 1). He can wash his hands of all the details and responsibilities of handling credit and "pass the customer on" to a loan company or bank. 2). He can undertake the whole job of handling credit himself, alone and unaided financially. 3). He can call upon a sales finance company to help him out. Or 4). He can turn to his bank for financial help and counsel.

"Passing the Customer On"

The least satisfactory method of handling credit is to "pass the customer on." Not only does this method put the customer to extra trouble,—it comes nowhere near accomplishing the end results the retailer hopes for. He has all the disadvantages and none of the advantages of selling on credit.

Imagine for a moment a cash retailer who adopts this method to boost his sales. The customer comes in, sees something he wants to buy, and asks the retailer to charge it or to let him buy it on time. The retailer is immediately put at a disadvantage. He must tell the customer that he sells only for cash and must tell the customer to go to a friendly loan company or bank to borrow the money to buy the merchandise.

Three Strikes

Now let us follow the customer who has been "passed on" by the retailer. He walks out of the shop, intending perhaps, to go to the loan company or bank. But on the way he passes another store where he knows he can get credit, drops in and buys what he wants on time. That's Strike No. 1 on our retailer.

Or suppose the customer gets as far as the bank or loan company and, after applying for the loan, is told that afternoon or the next day that his loan is approved. He has to make another trip to the loan company or bank to get the money and, when he has it, he begins to think of a hundred other ways to spend the money. The chances of his spending the money at our retailer's shop are very slim. That's Strike No. 2 on our retailer.

Or suppose the customer actually does return to the retailer's shop with the money he borrowed at the loan company or bank and suppose he buys what he set out to buy. When it comes time to make the monthly payment, does he make the payment to our retailer? He does not. He makes it at the loan company or bank and our retailer misses a chance to show him a new line of goods and interest him in a new purchase. That's Strike No. 3 and "OUT" for the retailer.

Macy's tried this plan for a number of years. It didn't work. The cash store now runs its own credit department.

Point-of-Sales Financing

So the cash merchant who feels he

needs a credit department may decide that the best thing to do is to create his own department to handle charge accounts and instalment sales.

Has he any notion, as a rule, of the problems that confront him,—especially on instalment sales? Many a merchant in the early days of instalment selling went bankrupt, even though his assets far exceeded his liabilities. Why? What had happened?

The informed retailer knows that instalment sales have an appalling way of "freezing" his working capital. For example, $120,000 volume of annual sales payable in 12 equal monthly payments will tie up permanently or "freeze" at least $65,000 of the retailer's working capital. If the sales volume runs heavily toward 18 monthly payment deals, he'll tie up almost 50% more of his working capital. The same sales volume in deals payable in monthly instalments over a period of five years will freeze over $300,000 of the retailer's working capital. The following table will be of interest:

Annual Time Sales Volume	*Number of Monthly Payments*	*Amount of Working Capital "Frozen"*
$120,000	12	$65,000
120,000	18	75,000
120,000	24	125,000
120,000	36	185,000
120,000	48	245,000
120,000	60	305,000

Capital Only One Problem

Unless the retailer is very well "heeled" financially, he'd better not try to carry the instalment credit business on his own working capital, financially alone and unaided. But working capital requirements are not the only financial problem of the retailer who offers charge account services and time payment plans to the public.

It costs something to put each charge account and instalment deal on the store's books. The retailer will have to pass on the customer's ability and willingness to pay. That takes time and costs money. The more credit sales there are,—the more time and the more money. In a large credit department, the salaries which are paid to the head of the department and to the men or women who pass on credit applications average well above the wages paid to clerks in the bookkeeping department, for example.

Having accepted an application for credit, the transaction must be written up, documents and contracts must be prepared if an instalment deal is concerned, the coupon book must be prepared, the ledger cards made up and posted, and the delivery of the goods authorized. All this costs more time and more money. In fact it will cost anywhere from 50 cents up to $2 or $3 to do this part of the credit job. Whether this cost is low or high will depend upon the way you run your department. If you make the best possible use of your employee's time so that the cost is mostly a direct labor and direct material item you will hold your cost down. If, on the other hand, there are a good many slack periods during which your staff coasts along, then your overhead expense burden will run this part of your credit cost per sale right up into the sky.

Collection Costs

Putting a charge or instalment account on your books is not the only operation in your credit work that costs money. Don't forget that you haven't completed the sale until you've collected the money. And the collection effort of your credit department will call for more employees than any other in your department.

It is here that the well-informed and skillful retailer will effect his greatest savings. Many of them have been studying cycle billing and some of them are adopting this and other measures for evening out the pressure of work on employees. For it is even distribution of work,—as even as possible,—which cuts down the overhead expense burden and brings direct labor and direct material costs more nearly up to actual costs. Another point to watch is the avoidance of repetitions, duplicated effort. How many times do clerks write the name and address of one customer? Why? How many times are the figures on the charge slip copied? Why? How do retailers follow up their delinquent accounts? When and why do they write an account off as uncollectible?

Let is be said right here and now that the greatest element of cost in the collection department is not the cost of writing off losses, nor even the cost of trying to correct delinquencies. The greatest cost lies in the sheerly routine business of following and posting payments that are made satisfactorily. Four cents per instalment is the lowest collection cost which I have seen to date. On the high side I have seen many operations run up to 20 cents per instalment and more.

The cost of putting credit business on your books and the cost of collecting the charges are not negligible. If control is not exercised the cost may cut heavily into a narrow margin of profit on the retailer's business,—may even wipe it out. And until the retailer knows what his credit department costs, he cannot know what to charge his customer for the service. Nor can he blindly follow the lead of his competitors without danger and risk to his financial conditions and the profits of his business.

The Sales Finance Company

Early in the history of modern banking methods, sales finance companies discovered the retailer's need for working capital. By purchasing the accounts receivable and instalment contracts, sales finance companies "unfroze" the tied-up working capital and helped the retailer along to bigger and better business.

Years of experience in the business of credit granting and financing have taught the sales finance company executive things to do as well as to avoid. He knows that the terms of an instalment contract must be limited to the useful life of the article purchased on time and that the customer's equity in the goods must be great enough to make the customer hang on to the goods and keep on paying for them. This fund of experience is available to the retailer who sells his accounts to a sales finance company. As new and untried postwar goods come on the market, the matters of amount of down payment and number of months to pay become particularly important. If the new goods don't work, Johnny American won't pay, and Mr. Retailer won't collect.

Many Names—One Plan

The plans which sales finance companies offer to retailers for the purchase of receivables go by many names. Among the better known are the "Cash Availability" plan, the

"Cooperative" or "Indirect Collection," the "Revolving Fund" and the "Schedule" plans. Basically these plans are all the same. The sales finance company purchases the retailer's receivables for a certain amount, makes an advance payment in part and "holds back" the balance to ensure total recovery of the investment made in the receivables.

Charges for the financial services rendered under these plans vary from store to store and from territory to territory. They depend in part upon the number of credit transactions which must be supervised and in part upon the character of the retailer's business. Competition between sales finance companies for desirable accounts has brought about substantial reductions during recent years in the cost of these services.

Rates Lower

Some years ago the prevailing sales finance company rate was $\frac{1}{30}$th of 1% per day plus 6% per annum on the unpaid balance. Today sales finance companies are quoting rates which rarely exceed a yield of 13% or 14% per annum, although there are special cases and conditions which still call for yields far in excess of these amounts.

Today prevailing rates in New York City and Chicago are quoted as low as 4% discount on face to yield 8% per annum or less, depending upon the amount of cash advanced for the receivables and the amount held back in reserve. Arrangements are sometimes made to purchase the receivables on a non-recourse, direct collection basis at a 5% flat discount rate on 12-month paper, the advance being 100%. In most cases, on the indirect collection basis where the retailer enters into a non-notification contract with the sales finance company, the rate will be higher and the advance usually less than 100% and frequently not more than 85% or 75%.

Banks Serve the Retailer

In recent years a number of banks have recognized the retailer's financial needs and have patterned many of their operations after the sales finance company plans. However, accounts receivable financing has not yet become a general practice among banks.

The banks which engage in the business are usually very "choosy" as to whom they will finance and employ tighter credit standards than those in use by sales finance companies.

On the other hand, banks are in part responsible for forcing rates downward. 3½% to 4% discount on the face amount seems to be a current rate on highly desirable accounts in New York City and Chicago. In some cases allowances are also made for the collection effort of the retailer, the trend being toward a 3% flat discount to yield approximately 6% per annum. Special reserves are required according to the type of receivables assigned to the bank and the advances range from 75% to 90% of the face amount. Full recourse to the retailer is usually demanded.

Cost of Money

This recital of rates and charges must be wholly without meaning to many a retailer. It is a language all its own—a language, unfortunately, in which the natives themselves differ as to the meaning of various terms. "Discount," "per annum," and "yield" mean one thing to one banker, quite something else to another. Such a chaotic condition calls for simple treatment by the retailer who is seeking the best terms for financing his receivables. He must ask the financial institution to tell him what the service will cost in plain dollars and cents. If the financial institution is unable or unwilling to do so, then the retailer should obtain competent counsel to guide him through the maze of unfamiliar terms to a clear realization of the ultimate cost of the service.

Costs and Taxes

No discussion of consumer credit costs would be complete without a word on taxes.

In a period of lower taxes toward which we may be headed it is desirable to defer as much income as can be justified in order that such income may be brought into "earned income" at a time when taxes are lower.

In instalment selling there is, however, an equally cogent reason for deferring a part of the gross profit or mark up on goods sold on the instalment plan. It is only proper that a part of the mark-up be set aside to cover the cost of collecting each instalment. Then, as payments are finally completed satisfactorily, whatever balance is left after all expenses and reserves for losses may properly be said to be "earned income" or "net taxable profit."

Postwar Retail Credit

A final word as to the retailer's prospects in this postwar world of ours. Are we going to go back to where we were in 1941? Is there going to be more credit business or less?

If, after all the strikes are over, we finally manage to start the program of production and distribution which we had planned for full employment in Victory Year One, then according to Morris Livingston and the Committee for Economic Development we shall need $165 billion national product to keep the boys and girls busy most of the time. Out of that $165 billion, $108 billion—almost two-thirds—will consist of producing and distributing things which you and I will use—consumer's goods—furniture, household appliances, radios, television sets, refrigerators, automobiles and the thousand and one other things which make up the American standard of living.

Those things must be sold for the most part through stores. And you will have to sell two or three times as much as you ever sold before if we are to have full employment.

How can Johnny American, Mary and the kids buy that much? Will they have the cash? Will they sell their war bonds or tap their savings? Or will they buy on time on the strength of their future earnings and their belief in themselves? It seems clear to me that the American is going to buy on time to a greater extent than he has ever done before and it is up to the retailer to see that he buys carefully, wisely and well—that he does not overtax his ability to pay—nor yet buy goods of unproved merit for which he will refuse to pay. The retailer will need a credit department such as he never had before. He will need to know the cost of that department so that as time goes on he will give Johnny American the best and the most economical credit service man can devise.

WHICH IS THE BETTER WAY?

Better Turnover Makes For Better Capital Position

by J. L. VESPER

Credit Manager
WALKER T. DICKERSON CO.
Columbus

Operating statements of practically all Shoe Retailers show inventories, closing the year 1945, 50% to 90% below pre-war years. Their Financial Statements show an exceptionally large amount of Cash and Government Bonds which with exceptionally low inventories has placed their businesses in very liquid positions.

Mr. Baxter's (International Economist) advice is to retain these positions as long as possible where sales volumes will not be too much jeopardized. In other words, even though, as in the past few years, operation still seems to remain difficult with low inventories, it is far better to have to operate with difficulty (your style cramped) for a while longer than to decrease your present working capital position.

The consensus of opinion among retailers is that when our economy returns to normal they will all be *forced, through competition,* to go back to the old pre-war years' way of doing business, where the average turnover obtained was only 2 times or a little over.

Less Capital Needed

Through necessity of forced hand-to-mouth buying during the years of war, with maintained turnovers of 4-6 times, it was proven to retailers that (even though operation of their business was more difficult) they could operate on less invested capital, since, with increased inflationary sales volumes, decreased inventories and frozen purchases, net profits increased automatically, thereby materially increasing working capital positions.

It could be said that increases in working capital positions in a majority of cases show an over-capitalization; however, inflationary profits which provided excess working capital should ***definitely be retained*** in each business, since they will be needed as financial protection when the pendulum swings the other way, as it always does, just as the sun rises and sets. War inflation profits or increased working capital, which should be retained in any business, is comparable to insurance or a parachute to carry a business in the deflationary fall to a normal economic level and to retain that position whereas without retained inflationary profits or excess working capital a normal economic position could hardly be held and would result in possible difficulty in operation or bankruptcy.

Present Position Preferable

Compare any shoe retailer's present day financial statement with that of 1940-1941—or even 1942—and I believe the majority will choose their present positions to that of 1940 to 1943, with one thought in mind—that, should a very decided deflationary change in our economy take place, they could operate their businesses without difficulty for a long time, since the large portion of their assets are in cash and bonds. Suppose that by June, 1948, economic conditions would be as bad as in 1933? I am quite sure that you might welcome the opportunity to operate your business as you have during the war years (even though you thought it difficult to do so) with smaller inventories and your requirements being shipped on a quota basis.

Before this mythical dream of economic chaos starts to truly unveil itself, all shoe retailers should definitely consider adopting as a *new standard of merchandising a 4-time turnover* (instead of the pre-war 2-time turnover). This will enable them to maintain better working capital positions and fortify their financial and economic positions to combat the next adverse economic period which will occur in the next 2 to 5 years.

Consider Four-Time Turnover

If this new standard is not adopted and adhered to, it is obvious that the false idea of competition will again force retailers to return to the pre-war rut of a 2-time turnover.

I am quite sure that those who will give the 4-time yearly turnover a fair trial, as we start to approach a supposedly economic normal trend, even though some competitors revert back to the 2-time turnover basis, when the economic crisis does come, will consider themselves very fortunate and be thankful that they conserved as much of their present working capital as possible, Cash and Government Bonds.

The following figures present invested capital (excluding capital outlays for fixed assets) and working capital differences for average monthly inventories carried, where a 2-4 or 6 time yearly turnover is obtained. Also assume that the merchandise set up obtains a maintained mark up of 40%, with total yearly expenses only 30% of sales.

2 time turnover

Sales	$50,000
Cost Sales	30,000
Gross Profit	$20,000

Obtaining a 2-time turnover—the average inventory carried should be $15,000. The invested working cap-

ital to operate efficiently with an average monthly sales volume of $4,166—should be *$18,750.*

4 time turnover

Sales	$50,000
Cost Sales	30,000
Gross Profit	$20,000

Obtaining a 4-time turnover—the average inventory carried should be $7,500. The invested working capital to operate efficiently with an average monthly sales volume of $4,166—would have to be *only $11,-250.*

6 time turnover

Sales	$50,000
Cost Sales	30,000
Gross Profit	$20,000

Obtaining a 6-time turnover—the average inventory carried should be $5,000. The invested working capital to operate efficiently with an average monthly sales volume of $4,166—would have to be *only $8,750.*

Comparing the above, it is obvious that in case #2, when a 4-time yearly turnover is obtained, in which $7,500 less working capital is invested in inventory as compared to #1, operation should not be so difficult if all retail shoe dealers would adopt as a standard the maintaining of a 4-time yearly turnover and continue to plan their purchases on a month to month basis from manufacturers as they have been doing for the last 3½ years.

Example

The following is a concrete example using figures from the credit file of one of our customers, which should illustrate to most dealers, now obtaining a 4-time or better yearly turnover, that if they wisely choose to continue to operate on this standard, their operating difficulties are not as great as they would seem to be, considering the conservation of working capital to combat a sharp adverse economic trend. This customer's figures showed sales for 1940—$29,000, inventory December 31, 1940—$11,472, a turnover of 1.7. To have maintained a 2-time turnover, he obviously should have operated on an average monthly inventory of $8,700. He was overstocked $2,772. If he had been operating on a 4-time turnover, he would have needed an average monthly inventory of only $4,700. However, with an actual inventory of $11,472 he had $6,772 more capital invested than necessary, comparing the actual inventory carried ($11,472) with only a 1.7 turnover, with an inventory of $4,700 to obtain a 4-time turnover. In conjunction with the complaints and demand for more shoes at the present time, let us compare with the above this customer's figures for 1945. Sales 1945—$52,-000, inventory December 31, 1945—$6,900, turnover a little more than 4 times. To obtain an exact turnover of 4 times the average monthly inventory should be $7,800. Obviously then, his inventory is only $900 under the average monthly figure to obtain exactly a 4-time turnover.

This article was specifically written with reference to a practical change for better merchandising for Shoe Retailers who prior to the war had a somewhat false conception of turnover in conjunction with a satisfactory working capital position.

If the war caused similar changes in other types of businesses it is hoped that the ideas set forth in this article will be helpful to try to maintain changes made for better merchandising and financing.

Why Invest More?

Considering this, if he could buy at once enough shoes to support a sales volume of $52,000 (at the old yearly 2-time turnover with an average monthly inventory of $15,000) is it possible that he would be tempted to convert $7,500 to $8,000 of his inflation working capital profit to purchase additional shoes when his present figures show that he only needs to invest $900 to operate on a 4 time yearly turnover basis?

If all shoe retailers could purchase their requirements comparable to their *present sales volumes* to operate on a 2-time turnover (as they operated in 1940) all of them would be in the same position as in 1940 and I believe they could expect a very acute decrease in the present demand, thereby making an over stocked condition for all; then what?

Going back to the case of our customer; at present he should be thinking in terms of his 1940 sales volume (a year of supposedly normal economy) and consider himself lucky that his present inventory is at a low figure, since it is possible that a deflationary period could easily reduce his present sales volume of $52,000 to $29,000. How much wiser it is to play the game with an average monthly inventory of $7,500 to $7,800 and if a sharp decrease or even an orderly decrease in his monthly, quarterly or semi-yearly sales volume is encountered his chances to retrench would not be difficult.

Smaller Differential

Also the differential of working capital of an average monthly inventory carried where a sales volume drops from $52,000 to $29,000 (on a 2-time turnover) is approximately $7,000—on a 4-time turnover only $3,100. However, if he is operating on a 2-time turnover with a sales volume of $52,000 and an average monthly inventory of $15,000 and sales drop sharply to $29,000, should he desire to change to a 4-time yearly turnover the differential would be $9,300 (working capital, that is).

I am quite sure that if a complete financial and operating analysis and survey were to be made at the present time for all the allied industries from the raw material processor through the retailer in conjunction with a *standard* 4-time yearly *retail* turnover, it would show a complete industry working capital position enviable beyond comparison to that of any other industry and its allied associates.

However, will the temptation be too great for shoe retailers to resist over-buying and over-stocking, investing in inferior merchandise and unheard of brands with no repeat sales value, below a 4-time yearly turnover position, by forced competition and high pressure selling, thereby jeopardizing the future of their business and their livelihood when the next economic crisis comes?

Consider definitely that the retailer's business is one of merchandising shoes. Therefore, he should not invest working capital in stocks or

(*Continued on page 32*)

INCENTIVES FOR EXECUTIVES

How to Make Management Worthwhile

by CLINTON DAVIDSON
President
MANAGEMENT PLANNING, INC.
New York

One of the most serious problems confronting American business today is that of insuring proper and adequate compensation to the men who bear the burden of administration and direction. The reason is not that stockholders are unwilling to pay salaries or bonuses commensurate with results, but rather that the income taxes are so high that most of the moneys so paid out would go to the tax collector instead of the executives for whom the "incentives" are intended.

Here is the way one large-scale owner voiced the problem: "Our company's sales," he said, "are at their highest point in our history. Wages and working conditions for production employees are likewise better than ever before. But salaries and other compensation paid to officers, directors and other high executives are the lowest, in terms of sales and net worth, that they have been since 1931.

Against a Blank Wall

"We have examined every possible avenue of correction—bonuses, profit sharing, issuance of stock, and the like—and every course brings us up against the blank wall of income taxes. To take a specific example, we have one man who earns $50,000 now, and who is worth at least twice that much to the company. But if his earnings doubled, his actual net increase, after taxes, would be less than $12,000 a year. We are extremely anxious to find some way to pay him more, because he is seriously considering becoming a partner in a new and smaller concern. If he takes this step, his immediate earnings will be slightly less than they are now, but he stands to profit later on by the growth in the new company's net worth. If that happens, and he sells part or all of his holdings, he will have to pay only the 25 per cent capital gains tax on the amount realized —as compared with a 77 per cent income tax on the increase when his compensation is raised from $50,000 to $100,000."

Here is another example which shows how tax developments have vitiated ownership's desire to give management a share in the profits of business. A company, which is international in scope, has paid its managers large and liberal bonuses for a score of years, these bonuses representing a percentage of earnings. As a result of this plan, the company's former executive vice-president and general manager, who retired a few years ago, accumulated a personal fortune of more than a million dollars out of these bonuses. His percentage bonus in a single prewar year often ran as high as $200,000. Judged by such results, this particular company's bonus arrangement would seem to be ideal.

But the Taxes!

It *was* ideal in earlier days, but it almost defeats itself under today's personal income tax laws. For example, if this same general manager were to receive a $200,000 bonus today, some $148,000 would go for personal income taxes, leaving less than $52,000 for himself. This sum is hardly sufficient to pay his personal expenses under the living scale which he had previously established —and it leaves little or nothing for savings in the future.

While the earnings-bonus plan still *costs the company* the same amount, the moment the general manager's compensation exceeds $100,000, approximately 85 per cent of it is consumed by taxes—and the *incentive* wholly disappears from the company's incentive plan. Proportionate "let-downs" occur in the case of executives further down the ladder. If the $10,000-a-year man receives a salary increase or bonus sufficient to double *his* earnings, Uncle Sam takes $4,028 of the increase. And the executive whose $25,000 is doubled has to turn over $15,589—more than half—to the tax collector. A similar jump, before the war, would have netted the executive more than $18,000.

Two Solutions

There are two solutions to this difficulty, and both of them are difficult. The first involves a reduction in personal income taxes—and Business, for its own good and that of the country as a whole, should be doing its utmost to "sell" Congress on a substantial cut in upper-bracket taxation. The second involves the acquirement of stock ownership by top managers, which is also a complex operation.

If, at the time the earnings-bonus plan described above was put into effect, the general manager could have bought a proper percentage of the company's stock, his *income* would have been reduced by present taxes, to be sure, but the assurance of *future security* for himself and family would have remained, through his stock ownership. And as long as the executive's future security remained, the major incentive would have continued to operate for the stockholders' benefit.

Obstacles

There are two principal obstacles to the installation of such a stock-

purchase plan. The first is the reluctance of stockholders—particularly in closely held corporations—to give up any part of their ownership interest. The second obstacle is the financial inability of the managers to buy a sufficiently large block of stock to make the managers' ownership interest worth while.

Overcoming the reluctance of shareholders to sell stock to management is basically a selling problem. Stockholders must be shown the intrinsic mutuality of interests. They must be "sold" on the benefits which accrue to *all* the owners from the efforts of the managers, when the latter are impelled by the most powerful of incentives—part ownership in the business.

This selling job cannot be done by management itself. Managers who approach owners in such a question are, *per se,* in a weak and self-serving position, and their arguments are too often regarded as special pleading. This is a task for the outside expert, who can succeed if he possesses the following specialized qualifications:

1. Unselfish interest and viewpoint.
2. Ability to gain the confidence of both parties.
3. Mature financial experience.
4. Sales experience, particularly in dealing with wealthy men.

Possession of these qualifications makes it relatively easy for the outside negotiator to "sell" a plan which meets the respective needs of the managers and the shareholders. Even apparently hopeless situations eventually yield to a solution, and, in our experience, all but about 2 per cent of such cases can be satisfactorily resolved.

Solution

With respect to the second point —the financial inability of managers to buy adequate stock interest—it must not be assumed that the only solution is for the managers to have, or be able to borrow, all the cash necessary to buy such an interest outright. If this were the only way, less than one per cent of such arrangements could be consummated. In our varied experience with such situations, we have uncovered almost as many ways for individual managers to buy a stock interest as there are ways for a corporation to acquire additional capital. For example, consider the following six solutions:

1. Stock purchase warrants.
2. Financing of the purchase by the corporations, with options entitling the corporation to repurchase at prices progressively increasing in proportion to the number of years the stock is held by the manager.
3. Stock purchase financed partly by dividends and bonus.
4. Direct purchases from controlling stockholders through part cash and part notes, with stock as collateral for notes.
5. Bank loans, endorsed by owners from whom stock is purchased.
6. Stock offered to manager at a price sufficiently lower than market price, which enables him to do his own financing by using stock as bank collateral.

Tax Advice Needed

Serious tax problems are involved in each of the six methods outlined above, so none should be undertaken without first securing tax advice. For example, court tax decisions have either removed most of the incentive from the stock purchase option plan or have clouded it to such an extent that few are willing to try it. In event this plan is preferred, we believe that two things should be done:

1. Interested corporations should unite in seeking proper legislation.
2. The date under which options *must* be exercised and the expiration date of the options should be at least ten years from the date they are issued, so as to give time to secure proper changes in the tax law.

Where managers, out of their private funds, are unable to finance the purchase of sufficient blocks of stock, either the corporation or the stockholders must agree to assist them. Once again, this is a selling job—persuading stockholders that if it is beneficial to have managers *owning* stock, it is likewise beneficial to *help them own it!*

This selling job takes time, and skill and effort. However insuperable a given situation may seem at the outset, our experience in conducting such negotiations proves that every obstacle can be overcome. According to our records, less than two per cent of the cases cannot be satisfactorily solved. The following illustration shows how even the most hopeless situations are amenable to proper handling.

Case in Point

In this particular case, the customary conflicts of interests were further complicated by the mutual animosity of two elderly groups of stockholders. The business was being managed successfully by two executives who between them owned a very small stock interest. They were dissatisfied, first, because they could see no worthwhile future for themselves, and, second, because they were "in between" the two antagonistic stockholder groups.

A careful survey of the situation had been made before we were called on; the managers had presented their case, in writing, to the stockholder groups—but to no avail. What they lacked was *the independent point of view.* They were in a self-serving position, making what was bound to be regarded as a self-serving plea. The fact that their proposed plan also would have benefited the stockholders did not free the managers from an appearance of bias. (This is the basic disability from which all managers suffer when they attempt to negotiate their own arrangements with stockholders.)

The solution of this apparently hopeless problem involved two separate deals:

Step 1. When we stepped in as outside counsel, we first made a study of the company's affairs and determined upon a fair price for its stock. Then we met with the two elderly family groups—in separate meetings—and pointed out to each the futility of continuing under such inharmonious conditions.

We suggested that the smaller of the two groups, which was the source of most of the strife, sell its interest for cash, and that the other group accept for their stock (1) part cash; (2) part preferred stock; and (3) part common stock.

Each group agreed to permit the two younger men, who were actively managing the business, to buy a reasonable amount of common stock. The balance of the cash required to buy the common stock was to be raised by the company through a bank loan. This common stock, after

(Continued on page 38)

ADVENTURE IN REALISM

Business Has Its Romantic Side, Too

by **WILLIAM C. NORTH**

Credit Manager

BREYER ICE CREAM CO.

Newark

To the men who have read Robin Hood and have thrilled with The Count of Monte Cristo, and the men who have ridden with the Musketeers, or those who have lived on an island with Robinson Crusoe, this is to stir your memory.

To the men who lie in bed at night and wonder: "What is it all about?—Will I get anywhere?—Why are things so confused and yet monotonous?—What's the matter with people or is it I?—Make a dollar, they take most of it away from you, everything seems to be a racket —black markets, cheap politicians, hypocrites—capital vs. unions, and vice versa"—it all seems so foolish and futile to you. You wish you had lived in the old days when a man's life was his own. You'd like to live on an island like Robinson Crusoe, plant your own food, build your own home, make your own clothes and be independent. Never be independent the way things are going these days. Too many people trying to fix things for you, so you won't have to die in the poor house. Well, that's a comforting thought; no more poor houses or homes for the aged, after Social Security gets working right. They'll probably enlarge it—give bigger and better benefits. People won't have to work so hard, get longer vacations, retire younger. Maybe you can stand the monotony of going to work the same time every day, eating lunch the same time, coming home the same time, doing the same thing day in and day out, if it doesn't take so many years. Years—the thought frightens you. You punch your pillow, roll over and finally fall asleep to dream of the old days when things were different—perhaps.

There are many men who have thoughts like these, men who wonder if it's all too futile, men who seem to be mixed up, who roll and toss in bed—men who think, and we can thank God for them; for from these men come the ones who will break the routine of hum drum existence and open new avenues to a better way of living. From these dreamers, there will awaken men who will find adventure in adversity and romance in realism. Pursuit of prosperity in this modern Business World will shame the adventures of Monte Cristo.

Be Aggressive

Make up your mind to attack life vigorously, get in the right frame of mind and have confidence in yourself and you will have placed your foot solidly on the road to progress. When you go to work in the morning, go with spirit, with vigor, with enthusiasm. No matter how small or menial your task, how insignificantly small it may seem or actually be, it must be done well. Your progress depends upon doing whatever you have to do well. But, and remember this, your job is only incidental to you. It is a means of earning a living or perhaps just a sustenance, while you build your character, while you prepare and qualify yourself for something better. A good job doesn't make a man, but a good man makes a good job. In the adventure of advancement you are the key. Be alert to what's going on, constantly improve your knowledge, and always be ready to move on. You can't let up for a moment. Like a swimmer in a current, if you let up for one stroke, it takes ten to catch up.

Think of some of the things you'll encounter and have to overcome in your adventure in Realism and you'll realize the importance of being well armed on your journey. You'll realize that as you advance you have to make sure of your footing and always keep your balance. Each job is a stepping stone toward your goal. Make sure of your footing before you leap to the next stone. Survey the waters around you and when you have thorough knowledge of your present position and a clear vision of the future, move on. There's an old saying, "Never throw away dirty water until you have clean"—remember it.

Short Cuts

As you advance along the highway of life, you'll meet those who pretend to know short cuts, you'll run into those who were unprepared, and those who have given up. These people are your chief hazard. Those who claim to know short cuts will try to lead you in a different direction, those who were unprepared will try to make you share your stores and armor with them, and those who have given up will try to pull you down to their level. If you are of strong character, you will continue to press forward and the greater will be the odds on your success; but the more acute will be the attacks against you. You will be the object of envy and jealousy as great as any existing in the days of the Church and Court feuds. You will come to understand that in this industrial world there is more adventure than ever existed in the legends of the knights.

The speed of aeroplanes, the distance covered by rockets, the awe-

inspiring force of atomic energy, these things may thrill men but it is well to remember that they are merely the cumulative results of men who found interest and adventure in their everyday life—in their daily job. It took a lot of small parts and insignificant pieces, and a lot of men working on so-called ordinary jobs to produce the miracles of modern science.

Look Ahead

It always makes things sound adventurous and idealistic to discuss them after they are accomplished. The hard part is how to realize and understand adventure in the making—how to find and maintain interest in everyday life while working for a living. It can be done, but it's a personal and individual problem. It's a problem of making yourself realize that you are a part of this modern adventure, that you are the key to success; not your job, but you! Men of strong character are successful because of conditions and in spite of conditions. Men of strong character are individualists, which doesn't mean that they can't get along with others but does mean that they won't go along with others just to be with the majority. They are careful to maintain their individual initiative and personal liberty, consequently they hesitate to become associated with organizations or groups, which may impair or preprejudice these rights.

A man looking for adventure can find it aplenty in this modern business world, and if he has a fair supply of gray matter, he'll find it more interesting to battle with than swords or fire arms. If he's content to have his remuneration figured on a cost of living basis or his advancement based on his seniority rights then he must also be content to be leveled off with the crowd. This business world may be a tough old nut but an ambitious man with ideas can crack it wide open. Perchance you're that man. Pick yourself a goal and start climbing towards it. Place your goal at such a height that you're bound to find success in your endeavor to reach it.

School boy stuff? Don't you believe it! Take a look at the record, you'll find echoing from the tune of the mercenary melody of money is the story of the business men whose ethics and ideals are high and whose coffers are bursting with bullion; you'll hear, too, the tale of the "clever operators" who wind up in poverty or prison.

To men with spirit, no other field of endeavor offers as varied a course, as wide a range, as great an opportunity, and as high a reward as the Business World. It's Adventure in the Realm of Realism; the task of earning our daily bread.

Federal Reserve To Ask Perpetuation of Regulation W

CFM Regulation W, the Federal Reserve Board's wartime brainchild, has been discussed and re-discussed throughout its life by both those who think it is the best thing in history and those who consider it an unwarranted curb-rein on experienced credit men who know their own business and neither need nor desire any assistance from government, thank you.

Now the controversy is out in the open again with the news that the Federal Reserve Board of Governors will ask Congress for legislation making Regulation W a permanent institution. We are not prepared to discuss it here; however, some interesting questions have been brought out by the Retail Credit Institute of America. Here are some of them:

Since the Federal Reserve Act and the National Banking Act both carefully differentiate between banks that are members of the Reserve System and those which are not, what will be the constitutionality of the proposed legislation?

Will such an act automatically or by specific language draw under Reserve control not only merchants but all of the banks chartered under State Banking Laws, not members of the Federal Reserve?

If all State Banks, as well as merchants, are brought within the scope of the Reserve System as to loans to individuals or advances of credit for purchases, will all the terms of the National Banking and Federal Reserve Acts apply to State banks, or only this one Regulation?

Incidentally, the July 15th issue of the *Detroiter,* weekly publication of the Detroit Board of Commerce, under the headline, "Consumer Installment Debt Rising Rapidly," gives an interesting insight into the present condition of consumer credit. It reads:

Thus far in 1946, installment loans to consumers by banks, loan companies and credit unions have totaled \$1,364 millions, while loan repayments amounted to \$1,098 millions. This excess of loans over repayments added \$266 millions to the amount of installment debt outstanding, an increase of 22.4% since the end of 1945. Loan repayments are rising steadily but the volume of new loans made has increased much more rapidly.

On May 31, 1946, the amount outstanding on installment loans made direct to consumers in the United States by leading types of lending institutions totaled \$1,456 millions, a gain of \$434 millions or 42.2% since May 31, 1945. Virtually all of this rise in installments credit outstanding took place after V-J day—61% of it since December 31, 1945.

Of the amount currently outstanding, \$657 millions, or nearly one-half, is held by commercial banks. Small loan companies hold \$491 millions and credit unions \$142 millions. Industrial banks and industrial loan companies, the remaining types of institutions covered, were owed \$166 millions. Figures for banks and industrial loan companies include only direct loans to consumers.

Consumer Installment Loans Outstanding (add 000,000)
Source: Board of Governors of the Federal Reserve System

Lender	*5/31/46*	*12/31/45*	*5/31/45*	*12/31/41*	*% Increase Last 5 Months*
Commercial Banks	\$657	\$471	\$388	\$784	39.5
Small Loan Companies	491	445	384	535	10.3
Credit Unions	142	128	120	217	15.8
Industrial Banks	88	76	69	134	11.4
Industrial Loan Cos.	78	70	61	107	10.9
Total	\$1,456	\$1,190	\$1,022	\$1,777	22.4

Commercial Banks' share of consumer installment loans outstanding has been rising rapidly over the past five months. Today, commercial banks hold 45.1% of total held by the above five types of institutions against corresponding percentage of only 39.6 at the end of 1945. Commercial bank loans outstanding have risen 39.5% since December 31, 1945, as compared with corresponding increases of only 10.3% for small loan companies, 15.8% for credit unions, 11.4% for industrial banks and 10.9% for industrial loan companies.

Consumer installment loans outstanding reached an all-time peak of $1,777,000,000 at the end of 1941. At their present rate of increase, they will pass their previous peak in another six months.

Even Atom Bombs Cannot Destroy A Good Bank Vault

The Mosler Safe Company has just released an interesting statement concerning the effect of the atomic bomb attack at Hiroshima on United States manufactured steel and concrete.

The question is more than academic in this country, since many bank officers have been anxiously questioned by their depositors, and especially by renters of safe deposit boxes, on the ability of their equipment to resist atomic explosion, should such a thing happen in the United States.

Apparently the buildings constructed of steel and concrete withstood the blast very well and the American-made vaults, though built on the ground floor, were in operable condition after the explosion, although, of course, the heat affected the outside of the doors. The contents of the vaults were absolutely intact.

Read the Whole Question Before Beginning to Answer It, Teachers Say

Danbury: We recently received a clipping from the June 29 issue of the Danbury, Connecticut, *News-Times*, in which the following paragraph was included.

"William E. Mallory returned Saturday from the convention of the National Credit Men's Association in Toledo, Ohio. He was chosen a member of the board of managers and also of the committee on nominations. G. M. Rundle of this city was elected state vice president for Connecticut."

We worried over that for some time. We would be worrying still if we had not looked at the top of the column and seen the heading, "Danbury Twenty-five Years Ago".

EMPLOYEE LOYALTY—BUSINESS ASSET

Labor Turnover May Be Guide To Credit Rating

by **J. E. BULLARD**
Distribution Engineer
Special Writer on Business Matters

Employee loyalty, time and time again, has proven to be the greatest asset a business man has had. Due to conditions beyond his control, a small manufacturer was on the verge of going out of business. It was a temporary condition but he could see no way to keep going. That is, he could not until his employees came to his aid. They volunteered to accept lower salaries and wages than they had been paid, until such time as he could pay them what they were then getting. They even offered to place their savings at his disposal if he must have some additional capital. By this action the employees saved the business of the employer, saved their jobs and saved the creditors anything they would have lost had the concern passed through bankruptcy.

A great deal of doubt has been expressed that Henry Ford could have retained control of the Ford Motor Company, after World War I, had it not been for the loyalty of his employees and of his distributors and dealers. Certainly, that loyalty made it much easier for him to keep control than it would have been without it.

Direct Results Better

It has been reported that some years ago a union organizer attempted to organize a shop in which the employees were especially loyal to their employer. When he learned of the presence of this organizer the president of the company sent for him. The organizer when he appeared in answer to the call, showed a belligerent attitude. The president asked him to sit down, gave him a cigar and asked him how he was being used. They talked a few minutes and when the organizer left, the president asked him to report back before he left town and in the meantime to let him know if any obstacles were placed in his way. It was made perfectly plain to this organizer all employees were free to join any organization they desired to join. Those employees decided not to join the national union and the organizer reported to the president of the company they so decided because they were convinced they could do better dealing directly with their employer than they could dealing with him through a third and outside party such as the national union. Ever since, the employees of this company have consistently voted against joining a national union. The reason appears to be that they feel doing so would divide their loyalty and the company has gained their confidence to such a degree that they give their sole loyalty to it.

Whether or not employees affiliate with a national union, however, does not necessarily indicate the degree of loyalty to the employer. The conditions within the industry or business may have a great deal to do with union relations. Back in the gold rush days in California a young man went west to make his fortune. He did not do so well at gold digging but within a few years he came back with an idea. He started a little business and employed a few local women. He paid them enough so they were satisfied with what they were getting. The business grew and prospered, the number of employees increased and competitors entered the picture. Not only did some of these competitors produce a product inferior to what he was making but they were inclined to pay extremely low wages. As a result, they could sell at lower prices than he could. It was not so difficult to meet the competition in the case of the inferior products but when the quality was as good as his but the wages paid by the competitor were a great deal lower than he considered only fair wages, the problem was not so simple.

Employer Sponsors Union

To meet this situation he co-operated with his employees to organize a national union toward the end that every employer in the industry pay a living wage. His employees showed their loyalty to him by doing their part in bringing about the organization of a union and in unionizing as many of the shops of his competitors as possible. The net result was that he continued to pay wages satisfactory to his employees, his business grew and more and more jobs were created. In those early days, however, the loyalty his employees showed him by doing an effective job of unionizing the industry proved to be an important asset.

Since the business man who enjoys the sincere loyalty of his employees is quite certain to be a better credit risk than is one who is unable to inspire anything like that degree of loyalty, it is desirable to learn how loyal the employees of any given concern are. This is not always as simple a problem as it might seem at first sight. There are some men who appear to have a special talent for inspiring loyalty. A man may be found, for example, who seems to be breaking all the rules which should be followed to succeed in business. There, on the surface at least, is every reason to expect him to fail. Yet his em-

ployees are so loyal to him they save him from his mistakes and he goes blithely on making money. Everybody appears to be happy and he pays his bills when his attention is called to them.

Employer *In Loco Parentis*

Other employers gain the loyalty of their employees by taking a sincere interest in each and every one of them. If one of them is ill, he visits him or her. In case any of them is in trouble of any kind he or she is encouraged to come to him for advice and help. In other words, he acts as a father to them all. Not all employers, however, can do this. They cannot because they have not the temperament to feel sincerely interested in each and every employee from the office boy or the janitor to the highest paid person on the pay roll.

A man who has been remarkably successful in inspiring loyalty in his employees said that every person working for him knew they could come to him at any time they were in trouble and be helped. He mentioned the case of a woman employee who became involved in a rather scandalous affair which was given considerable space in the newspapers. Some employers, he asserted, would have discharged her because of the unfavorable publicity she had received. Instead, he had a talk with her, heard her side of the story, did more investigating and decided she was not as guilty of improper conduct as the newspaper stories would indicate. He did what he could to help her out of her difficulties, she continued to work for him and he felt certain the net result was that all his employees were more loyal to him than they would have been had he followed a different course.

Interest Promotes Loyalty

There is no question that a sincere and helpful interest in the employees serves to increase the degree of their loyalty toward their employers. This, however, can be shown in a number of different ways. Many men have made fortunes for themselves by taking the trouble to bring out the best in each and every employee, to train them for more and more important jobs. They are steadily promoted to bet-

ter jobs, are taken into partnership, started in business for themselves or found better jobs with some other concern.

There are a number of retail concerns which have started as a single small store. The owner of the store hired the best talent he could find and afford. Probably, he specialized on high school graduates at the start and later may have included college graduates. He studied each new employee and tried to determine what special talents and abilities he might have. If he showed promise of becoming a good store manager, a new store would be open when the time was opportune and the young man appeared fully prepared to make a success of it. He would be part owner of this new store. If he had enough money he made a cash investment in it. If he did not, he made payments out of his earnings on the notes he gave his employer.

Produces New Outlets

An executive of a wholesale company said it was the policy of his company to encourage any employee, who desired to do so, to go into the retail business for himself. The company guided him and gave him advice, extended all the credit, but no more, the man deserved and continued to take an interest in him. It was thought this policy attracted somewhat higher grade employees and that another customer was added to the list of the house when an employee started a store of his own.

There are some small business men who, for one reason or another, have no desire to expand. They consider it better policy to keep the organization small enough so they can watch every detail. Yet they attract high grade employees, much higher grade, in fact, than one might expect to find in concerns so small. These employees are attracted because the business man has gained a reputation for the training he gives employees. He is considered as much a teacher as a business man but is good in both fields. Not only can a young man who has been trained by such an employer obtain a better job than would have been the case without the training but his employer may help him find one and with a concern where he will be able to advance at a rapid rate.

The labor turnover rate of such an employer, if used as a measure of employee loyalty, would prove misleading. The turnover may be relatively high but that disadvantage is offset by the greater ability of those who start working for him and the loyalty they show him. Also, they may be willing to work for him and do their very best for less money than they would expect from anybody else. They feel the training they get is worth making sacrifices to obtain.

Promotion from the Ranks

As a rule, employee loyalty is not as high in a concern where outsiders are hired to fill the better paying positions when they become vacant. The head of a retailing firm which enjoyed a high degree of loyalty on the part of its employees stated that all new employees hired were high school graduates. If they planned to go through college they worked in the store during summer vacations. Nobody was hired who had worked for other firms regularly. Promotions were made as rapidly as practical and nobody was hired from outside the company for any executive position which became vacant. It was this policy, he insisted, which had led to the high degree of employee loyalty which his company enjoyed. When asked what was done if an employee developed to such a degree his company had no position in which his full talents and ability could be utilized, he said he knew of no case of that kind because the company was steadily growing in size but should anything like that happen he would not hesitate to try to find a position for the employee with some larger company in which there would be no limitations on his progress.

Out of Evil Cometh Good

Sometimes a misfortune leads to a policy which results in a high degree of employee loyalty. Two brothers started a little business. One devoted his time and attention to production, the other to selling the products of the company. The business grew and prospered, the future looked bright, when the brother in charge of production died. This blow must have seemed little short of disastrous to the surviving brother but he had to maintain his morale.

He called together the key employees and had a heart to heart talk with them. He admitted he knew little about the production end of the business and he would have to have the utmost in co-operation from them to keep the company going and providing jobs. Out of this first meeting grew what, today, would be called a labor-management committee. Out of the co-operation between the head of the company and the employees developed a bonus system designed to assure each person on the payroll that he or she would receive, in the course of a year, every cent really earned.

Not only has that company steadily grown in size and prosperity but the employee loyalty is exceptionally high. At no time during the depression from 1929 to the start of the war was a single employee laid off because of lack of work, it is reported. Annual earnings of all employees have gone up to far above the average in comparable companies, the unit costs of its products have gone down, the selling prices have been lowered and the returns on the investment increased. A large percentage of the employees own their homes and also stock in the company. Apparently they consider it their company. At any rate, they are satisfied they are sharing in its prosperity. This concern is a good example of the results which can be obtained through maximum employee loyalty and also indicates one way in which that loyalty can be obtained. It, however, is well not to overlook the fact that the head of the concern is an accomplished salesman. Another man with less sales ability might not succeed so well if he attempted to follow the example of this one.

Larger Company

Another company had grown to such size that any personal contact between the chief executives and all the individual employees was no longer practical. Conditions were such that it seemed desirable to improve employee morale. Different plans were considered and finally it was decided to form a committee composed of representatives of each department of the business, these representatives to be selected by the employees. The committee was to

meet at least once a month and the executives of the company were discussing who should act as chairman and if the same person should so serve permanently or there should be a change frequently. At this point the president of the company pointed out he had grave doubts the plan would work unless he served as the chairman. If all grievances and suggestions any member of the committee wished to take up were considered by the head of the company, himself, at the start, the final results were bound to be better than if they had to pass through channels.

According to reports, this plan has worked well. There has been a decided improvement in employee loyalty and this has been reflected in lower costs of doing business. The president of this company, however, at the very first meeting, made it plain that he wanted free and frank discussions. He did not want any member of the committee to "yes" him. There is little question that the success of the plan has depended largely upon the atmosphere of free and frank discussions at the committee meetings which was established at the very start. A man unable to bring about such lack of reserve, to encourage the free and frank discussion, could not have made the plan work as well as it has.

Employer's Manner Important

Always employee loyalty depends to a greater degree than is often realized upon the personality of the employer. A grocer in a small city did a good business but his employees did not like him and were not loyal to him. Eventually, he went out of business. Had he possessed the personality to inspire real loyalty in his employees there is good reason to believe he would have done a much larger volume of business than he did and could have organized his business so it would have continued to exist after he was gone. Certainly, aside from his inability to gain the loyalty of his employees, he exhibited an ability rarely found among small merchants of his time.

In contrast with this grocer is a drug store in the same city. It was started by a doctor for the purpose of making it easier for his patients to have prescriptions compounded

(*Continued on page 39*)

BUSINESS PROTECTS THE PUBLIC

Fraud Prevention At The Consumer Level

by PERRY S. WILLIAMS
Better Business Bureau
New York

SM Business leaders have set out to protect wartime savings, the largest accumulation of government bonds, savings and cash ever held by the American public, from clever and unscrupulous swindlers. Fortunately, business had had more than thirty years' preparation for the task. They have been building barriers against those who resort to outright hoaxes, deceptive advertising and misleading sales methods to enrich themselves at the expense of the inexperienced since 1911.

It was in that year advertising men and publishers organized for "Truth in Advertising" through The Associated Advertising Clubs for the protection of consumers and competitors, which has grown into a national organized effort. The program led to the setting up of Vigilance Committees. In 1911 such a group known as the New York Vigilance Committee was in operation, nurtured by the Advertising Men's League, the forerunner of the Advertising Club of New York. Quickly the Associated Clubs, now known as the Advertising Federation of America, launched its National Vigilance Committee in 1912. This activity grew and a new name, the Better Business Bureau, was born. With the national program well on its way, attention was centered on the importance of a fully organized program of protective effort in New York City.

Newspapers, advertising agencies, financial and banking institutions, in 1922, organized the Better Business Bureau of New York City with H. J. Kenner at its helm as general manager, where he remains to this day fighting off, with an experienced staff, the evils that not only rob the public of its money but cast a shadow over all business operations, making it a target for those who seek to undermine the economic structure which has built this nation. The first president was David F. Houston, Secretary of the Treasury under Woodrow Wilson.

Bucket Shops

Twenty-four years ago the country suffered from an infestation of "blue-sky" promoters and crooked stock brokers centering in so-called bucket shops in New York City. The new Bureau immediately set to work and from the first its efforts met with success. It cooperated with the Post Office Department and the Department of Justice and the teamwork helped convict these swindlers. Its activities played an important role in vigorous enforcement of New York State's securities-fraud law.

In 1925 the Bureau had entered the whole field of merchandising through the strong backing of the principal retailers and the publishers of New York City's newspapers.

Today the Bureau's records show a new flow of calls from business and the public. With the task increased by the swindlers eager to cut into the big backlog of war savings, the public finds a free service offering a network of protection extending across the nation. There are now ninety-seven Bureaus in the United States and five in Canada. The effectiveness of these organizations is strengthened through their cooperation with national and local trade associations and chambers of commerce. There is a constant interchange of information going on among the Bureaus and their cooperating groups.

Guarding Savings

It is fortunate that business leaders were far-sighted enough to establish this protective machinery at its own expense. No one could have foreseen the juicy melon which the huge wartime accumulations now dangled before the eyes of the unscrupulous operator. No one could have foreseen the attacks leveled at all business by those who profit from the agitation. Although the Bureaus have no political or legislative functions, they are now a bulwark in protecting the good name of business and for building goodwill for it in the minds of the general public. They were established voluntarily by business and financed by business so that their services always have been and still are available without charge to the public. They cannot be pointed to as evidence of a sudden conversion to honesty by the "vested interests" or "big business." Every activity of the Bureaus is a move in the direction of protecting the public and business, but the whole bill is footed by business. Across the land there are hundreds of thousands who have been saved from financial loss by the machinery set up by the Bureaus.

Cooperation with Canada

The combination of restless dollars in the hands of the public and the avidity of the swindler to get his hands on them has brought a recrudescence of shady stock dealing. The rules laid down by the New York Stock Exchange and exchanges generally throughout the country, the strengthening of laws regulating trading and the powers given the Securities and Exchange Commission and State Securities Commissions all have had the effect of hold-

ing down this type of crookedness. Despite all these protective devices the gypper has the will to find the way to his victims' purses and the services of the Better Business Bureau of New York City and other Bureaus have had to be called into play to aid in stopping one of the most successful fake stock operations.

Due to the lack of a treaty providing for extradition from Canada to the United States on fraud charges, mining stock promoters in Ontario last year flooded the nation with alluring brochures. Their tipster sheets carried news of mining prospects which were always astoundingly good and their convincing letters followed up by high-pressure, long-distance telephone calls. It was a campaign which easily broke through the guard of the gullible. At one time it was estimated the weekly "take" from the citizens of this nation was one million dollars. The Bureaus, through their National Association of Better Business Bureaus, organized a special committee and attacked the fraud with a most effective campaign of publicity which was backed by the magazines, press and radio of the nation. Regulatory and prosecuting authorities on both the national and state levels cooperated. Ontario officials were aroused to action and jumped into the fray. They are revoking the licenses of dealers in the misrepresented offerings. In this job the U. S. Bureaus early received the vigorous support of the Bureaus in Canada.

Postwar Program

During the war the scarcity of consumer goods, shortage of personnel and curtailment of advertising somewhat reduced the Bureau's complete service in the merchandising fields. The Bureau also suffered from personnel losses to the armed services, particularly its experienced staff members. With the ending of the war, however, many elements have dictated the reopening of the full-fledged program. For example, its Homefurnishings Division has been reestablished and placed in the hands of a former Bureau executive returned from service with the Navy. In the work, complete cooperation is being received from the Associated Furniture Dealers of New York. Voluntary standards of practice in the advertising and selling of furniture, floor coverings, refrigerators and radios are being reviewed and will be revised. New standards for electrical appliances will be set up in cooperation with the trade and industry and with advertising media. Case work will be carried forward vigorously as merchandise becomes available. Intensive work is again under way in other trades to maintain accuracy in advertising and selling.

Not only does the Bureau operate to protect the public but it also serves businessmen themselves. This is particularly true in the numerous solicitations and alleged advertising schemes being made in the name of the veterans. The extensive files maintained enable the issuance of information and warnings which save many a dollar for intended victims. There were numbers of new publications purporting to be beneficial to the Army, the Navy, the Veteran, etc. The benefits, however, went almost entirely to the promoters of

(Continued on page 40)

PERCEPTION VERSUS ROUTINE

Do Your Assistants Know What They Are Doing?

by J. P. CALLAHAN

Special Writer

After she had taken all morning to list 150 checks, a new employe in a mail order house remarked to her supervisor, "The bank deposit's ready."

"Has the total been checked?" the supervisor asked.

"Oh, no," the girl said between languid chaws on her chewing gum. "Does the bank deposit have to be *added*?"

In making out deposit slips this girl, of course, scores an employe perception I. Q. of zero. In fact, anyone so lacking in a sense of the fundamental purpose behind her work is unlikely to shatter efficiency records with a new high.

What is less obvious is that under today's highly specialized office routines, low perception I. Q.'s often get by. A show of mechanical deftness in following cozily-grooved routines is all some executives expect. As a result, workers rely too much on form and too little on substance. They slump into blind, automatic habits that pass for proficiency.

Necessary in Daily Routines

To work with genuine efficiency, however, employes need to apply clerical perception to their everyday jobs. This is especially true in offices dealing with credits, where interpretation of values requires intelligence to spark the carrying out of fixed routines.

Loss of this intelligence, this awareness of relative values, is part of the price being paid for obtaining the easier brand of mechanical efficiency. Non-use of formerly active mental faculties has obscured significant issues and created a general disposition to avoid logical reasoning. The disposition extends to all self-figured calculations, even small problems.

Being a symptom of this age rather than an individual handicap, the general disposition is shared by people who never worked between office walls. A driver tanking up at a modern gas station merely glances at the registered gasometer total and pays his bill. If the computed price per gallon were a cent higher than that actually shown on the price register, the driver probably wouldn't notice the discrepancy. But how quickly such an error would have been spotted by a driver of a Model T back in 1910, when filling stations had no automatic meters especially designed to compute gasoline sales!

Machines Replace Brains

A similar comparison could be made of office employes. They are so used to accepting figures in self-proving machines that even ridiculous errors often escape attention. A "caught" figure of $50,000, invisibly and unaccountably picked up in an inventory tabulation of a modern manufacturing plant, was carried forward for about 30 pages, *unperceived by any employe.* The error was unnoticed until auditors in charge of controls tracked it down. If the routine checkers had a small part of the perception used by old-time manual bookkeepers, they would have found the error almost at once, corrected it, and forestalled a costly, laborious recheck.

Accidental slips promptly perceived and corrected don't cause one-tenth the bother of errors involving non-perception, which eventually trap even keen-minded employes and department heads in endless, senseless, futile snarls.

Inability to perceive chokes the flow of work and diminishes volume of dependable output. Starting with little oversights and neglects like failure to restore proper figures after erasures or persistence in using stubby pencils that wobble and wander out of alignment, low perception I. Q.'s soon nullify the specific and ultimate values that office systems are set up to determine. A home office, for example, may assign sales credits to branch offices according to territories to which bills are sent for payment. With today's orders complicated by special shipping, mailing or billing instructions and separately named and located principals, agents, consignees and intermediaries, of what use is a summary assigning branch office sales credits unless it is prepared by someone who can perceive exactly what is going on?

Follow the Rule

Yet this kind of information is being compiled day in and day out by clerks without the faintest idea of why their work is done or what it ultimately means. When uncertain about how to handle an exceptional case, these clerks "follow the rule"—or guess. If corrected, they defend themselves with some mumbo-jumbo about putting their work through according to "system."

This failure to understand what lies behind all systems is due in part to training along too rigid routine lines. Employes so trained are often unable to recognize or make allowances for exceptional cases, special categories or unusual circumstances that fall well outside ordinary law-of-average patterns. Then intelligence and common sense drown together in seas of over-systematic routines and statistical paraphernalia. And up go office

operating costs. For loss of perception is not compensated for by additional employes. It results not alone in larger staffs, but in larger staffs getting less work done worse!

Perception Reduces Time

With perception present, however, routines pretty much take care of themselves. Perception is successful because it uses simple, familiar mediums as much as possible. Familiar means to an end reduce error hazards. Work gets through faster on the most commonplace as well as the most exacting jobs.

A purchasing department worker, for a commonplace example, gets a British bill of sale to check. The amount totals £26-8-5, which is to be converted into dollars at the current exchange rate of $4.00. This is a simple calculation, but this worker is unfamiliar with the means to his end. That is, he knows the makeup and value of foreign currencies, but seldom has to convert them into dollars. Chances are he reasons something like this:

"£26 at $4.00 (multiplies). That's	$104.00
"8 shillings. Well, it takes 20 shillings to make a pound. That means one shilling is worth 1/20th of a pound, or 1/20th of $4.00, or 20c. 8 × 20 (multiplies)	1.60
"5 pennies. Hm-m-m. 12 pence make a shilling. If a shilling is worth 20c, a penny is worth 1/12th of that (divides) or 1 2/3c. Five times that (multiplies) equals 8 1/3c. Say	.08
(Adds)	$105.68"

Unfamiliar Medium

The process is complicated only because the figurer is working with an unfamiliar medium. If similar calculations have to be repeated, a little perception shows that the ratios of pence to shillings and shillings to pounds never change; therefore, a familiar medium in the form of a table based on the decimal system is well worth working out. After that, a glance at the table shows the decimal equivalent of £26-8-5 to be £26.420. Now a single operation gives the needed result:

$$\begin{array}{r} £26.420 \\ \times\ 4.00 \\ \hline \$105.68 \end{array}$$

As ratios always stay constant, fluctuating exchange values do not invalidate the table. A drop or increase in the actual value of sterling merely alters the value of the multiplying medium, such as to $3.99 or $4.015.

Just as lack of perception starts with little things, perception is applied first to apparently insignificant ways of getting things done that have significant advantages in the end. A carelessly placed wastebasket is moved out of harm's way where it cannot catch accidentally dropped papers. Air currents are regulated so that filimsy sheets will not be whisked off desks or tables to the floors or through windows. A double error is located promptly.

Double Errors

And double errors can be very tricky, indeed. Suppose check No. 8760 is made out for $287.91, by error. The check is cancelled and check No. 8761 substituted for $237.91, the correct amount. Since the discovery of one error confuses a worker and increases chances of a second error-provoking situation, the entry on the checkbook stub for check No. 8761 may also carry the original incorrect amount of $287.91. Cash is then short the difference of $50, a difficult error to locate because check 8760 has very likely been folded and pinned to its corresponding stub in such a way that its amount is hidden from view, to prevent subtraction of the amount of the originally cancelled check from the bank balance.

In automatic checking, hours may pass before the source of trouble is found. In perceptive checking, however, the memory of the employe at fault often gives the cue to immediate discovery. For although the second error may have been entirely unconscious, the remembered first one for the same difference starts the perceptive mind searching in the right direction.

High perception I. Q.'s are encouraged when staff training programs enable workers to see through routines to causes and effects. A sightseeing tour through various departments carrying out related functions is no substitute for this kind of training. One new accountant was escorted through a mattress-maker's establishment this way and permitted afterward to join a few question and answer sessions. When he had been on the pay roll about a week, he began to get chatty with some of the more experienced office employes supposed to be helping him.

"Don't you find this place dull?" he asked one of them. "I do, now that I know all there is to know about the business."

"No." The answer was humble. "I still have much to learn about this business—and I've been here 15 years!"

The accountant was merely skimming his eyes over the perimeter of system shells, which often look alike but vary greatly in operating detail. His rush to absorb and evaluate all factors according to his own whims and personal prejudices shows a deplorable perception I. Q. that will probably make his judgment untrustworthy as long as he lives.

Perception Developed Slowly

Instead of cramming all phases of a complicated operation into a trainee's mind at once, a competent supervisor tries to develop perception germs bit by bit. He teaches not only how a detail is carried out, but why it is important to the work cycle to have it done in that particular way. Maybe the manner of performance itself raises special questions that cannot be dismissed as idiotic. If specific, adequate answers are not available, a discussion of the points raised may sharpen perception among both supervisors and trainees. When supervisors show that they know what they are talking about, respect among employes grows and morale is stimulated.

Some trainees without a natural flair for understanding basic clerical values never grasp their dovetailing functions. These trainees require maximum supervision in jobs calling for minimum perception. Other trainees with a healthy respect for principles, purposes, results and average expectancy laws require minimum supervision in jobs calling

for considerable perception.

Extra Patience Needed

Those in the first group, being unable to distinguish significant from less important factors, respond slowly to newly introduced techniques and methods. An inferior method they have learned well gives better practical results than a superior method they have never learned. Not appreciating long-range advantages gained from early sacrifices to speed, they may be unwilling to learn such time-saving features as touch operating methods by calculator. Extra patience with their working habits is therefore needed, especially during periods of change.

Those in the second group are quick to see and sense new aims or advantages during system transitions. They are also quick to put their fingers on specific flaws that make any system cumbersome or unworkable. Members of this group are exceedingly valuable during periods of change.

And sweeping changes are taking place in offices today. The trend is toward greater varieties of products, wider price ranges, less standardized contracts, and more abundant employe incentives. Varying individual situations will call for greater perception. Office production will run much more smoothly if that quality is present for interlocking functions intelligently. New forms, devices, filing systems, machines and equipment are only the automatic trappings for securing needed results. The greater need is for people who can make these trappings work to best advantage through sound perception.

Which Is the Better Way?

(*Continued from page 15*)

real estate, for many reasons. He should compare the amount of Cash and Bonds he has on hand today with 1940 to 1941. He should compare his inventory today with that of 1940 or 1941, with respective Sales Volumes.

Continuing to operate with a low inventory with a 4 or better time turnover will not only keep him financially healthy but help to maintain his present economic position.

NACM NEWS

About Credit Leaders ***Association Activities***

New York Credit Manual A Boon To Salesmen

New York: In response to a widespread request by members of the New York Credit Men's Association for reference material which would be helpful to them in the preparation of a credit and collection manual for use by their Sales Departments, the Research and Survey Committee of the Association has now issued a booklet for credit and collection executives. This booklet has been engaging the attention of the Committee for some time and is the result of much expenditure of time and effort.

The principal purpose of the Credit and Collection Manual is to acquaint the salesman with the credit and collection policies of his company, together with a few fundamentals of credit science as a means to encourage complete cooperation between the Credit and Sales Departments.

Inasmuch as the credit policies of each industry, as well as of individual firms, vary, it seemed obvious to the committee that a single manual which would be a yardstick for everyone would be a difficult, if not an impossible, thing to compile. Therefore this pamphlet was primarily designed to include a number of broad, basic elements from which the credit department of each firm may select sufficient data for use in assembling its own manual.

It is an ambitious work and is surprisingly complete despite its briefness. The contents are subdivided into sections headed: Relationship between Credit and Sales Departments; Your Company's Credit Policy; Broad Principles Underlying Credit; The Value of Financial Statements; (This section gives a salesman a very concise resume of the importance of the ratios between the various sections of a financial statement); Terms of Sale; New Accounts; Old Accounts; and Collections. All in all it is a very admirable work.

The response to the publication of the manual has been little short of fantastic. The authors knew they had an idea, and a good one, but they did not dream that it would be so popular. Requests for copies have come from universities who wish to incorporate the manual in their business courses, and from business houses all over the country and as far away as Buenos Aires.

However, before you begin writing for copies, Mortimer J. Davis, Assistant Executive Manager of the New York Association, writes that although it is the simplest thing in the world to run off more copies, it will be impossible to give them away, as the expense of the manual was not inconsiderable. On the other hand Mr. Davis says that he will be willing and happy to pass on as many copies as any one wishes at the rate of fifty cents a copy.

Rocky Mountain C. M. A. Has Its Blood Up

Denver: The Officers, Directors, Advisory Committee, and Councillor of the Rocky Mountain Association of Credit Men were guests of L. M. Davis, of the Kuner-Empson Company, President of the Association, at a T-Bone dinner held at the "Pepper Pod" in Hudson, Colorado, recently.

The occasion was in celebration of the winning of the Class C Membership Trophy, the Five-Year Trophy and their elevation from Class C to Class B. The T-Bones disappeared with speed, appreciation and sundry condiments, and the theme adopted for the coming year was decided upon: CLASS B—BEWARE.

Secretary James B. McKelvy advised that the Association has shown steady progress since its inception in 1896 and would continue to grow with this young empire which it serves.

Fred S. Knight Retires After Fifty Years with Vermont Shoe Firm

Brattleboro: We have recently learned of the retirement of Fred S. Knight of Brattleboro, Vermont, as Credit Manager of Dunham Brothers Company of Brattleboro.

Dunham Brothers Company is one of the largest shoe jobbing houses in the country, and Mr. Knight has held the important position as Credit Executive in that organization for many years.

Mr. Knight has represented Dunham Brothers Company for many years through the Boston Credit Men's Association, and through that organization has naturally also been a member of the National Association of Credit Men. During his long number of years as a member of the Boston Association, Mr. Knight has contributed greatly toward the progress and success of the credit fraternity in the New England states.

National Institute Becomes Member of Education Council

New York: The National Institute of Credit has been formally elected to membership as an Associate Member of the American Council on Education. The membership of this Council comprises nearly 800 leading colleges and universities of the country, leading research organizations and foundations, and other important organizations interested in education.

This membership gives the National Institute of Credit added prestige and will bring it in closer relationship with the leading educational organizations of the country.

Cincinnati Chapter Winds Up Successful Education Season

Cincinnati: The Cincinnati Chapter of the National Institute of Credit held its annual buffet supper meeting in the Credit Club Room of the Hotel Sinton.

Twenty certificates for completion of the courses of Credits and Collections, Financial Statement Analysis and Business English were awarded. Courses in Credits and Collections and Commercial Laws will be offered this year.

During the meeting an election of officers was held. Arthur J. Schwab, Andrew Jergens Co., was elected President; Carolyn Stanton, Fifth Third Union Trust Co., 1st Vice-President, and C. G. Lepple, Methodist Publishing Co., 2nd Vice-President.

New York CMA Loses Active Textile Man

New York: The news of the death of Edward F. Murray, who died last month, was a shock to many in the Worth Street district, who knew him through his long experience as a Credit Manager. Mr. Murray died on July 7 after a 10-day illness.

He was associated with Bates Fabrics since its incorporation in 1937. In 1940 he was named assistant treasurer, retaining his post in the credit department.

He was a member of the New York Credit Men's Association and was well known for his work with the Textile Square Club, of which he was a charter member.

Figure 1

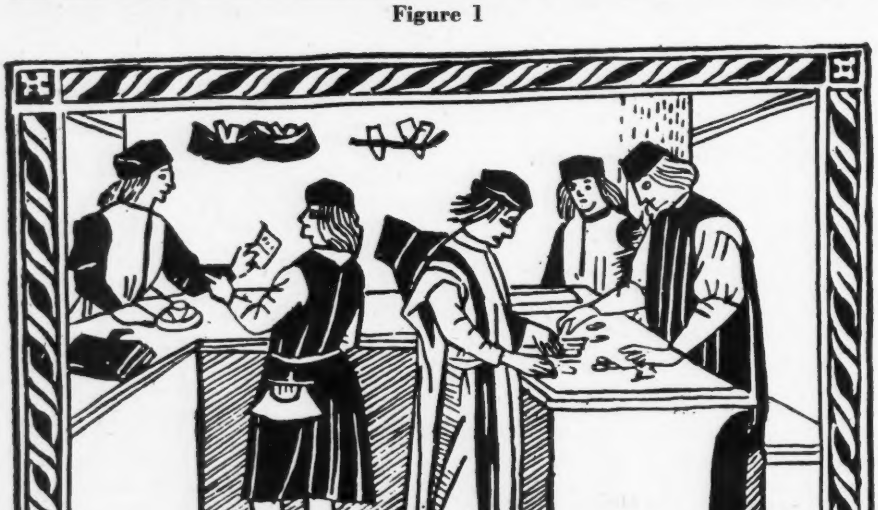


Figure 2 *Bettman Archive*

Credit Through the Ages

For the next few months, through the good offices of the Bettman Archive, of New York, we intend to print one or two reproductions in each issue, depicting Credit and Banking functions from the Renaissance times.

Figure 1 is taken from a French miniature painting of the 14th century. It shows a Banking house at one of the great Renaissance fairs. Such a bank would be a clearing house for the merchants doing business at the fair. Due to the lack of currency in those days, large business was executed on an exchange or barter basis.

Figure 2 shows the interior of an Italian Banking House with clients transacting business. This is a reproduction of a Florentine woodcut of the 15th century.

St. Louis Holds Annual Picnic and Outing

St. Louis: Summer being what it is, in St. Louis as much as anywhere else, the St. Louis Credit Men's Association held its July meeting in the great outdoors, and the business on hand consisted of eating and games in general. Rationing, shortages and so forth made the providing of food a problem, but with everyone bringing his own the problem solved itself.

There were games and races and all member firms were invited to send to the Association any item of merchandise they wished as prizes. The evening finished up with dancing.

W. N. Rainville Is New Minneapolis President

Minneapolis: At its first meeting of the new Association year, the Minneapolis Credit Men's Association's Board of Directors unanimously elected W. N. Rainville, First Acceptance Corporation, as its new President; H. J. Galle, Butler Brothers, was elected Vice-President.

On July 8, the Minneapolis Association joined with St. Paul for the annual Stag Golf Outing at Midland Hills.

War's Over; We Can All Play Golf Again

New York: A golf tournament will be held on September 19th at the Huntington Crescent Club, Huntington, L. I., which has been arranged by the Golf Committee under the leadership of Frank J. Kelly of James Talcott, Inc. Now that the war is over the New York Association is returning to its pre-war custom of holding two tournaments a year.

South Bend Elects Harold S. Herkimer As 1946-47 President

South Bend: At the Annual Meeting of the South Bend Association of Credit Men, held in conjunction with the Association's "June Frolic" on June 11, Harold S. Herkimer was unanimously elected President.

Mr. Herkimer is a charter member of the South Bend Chapter of the National Office Management Association and served as its first Vice-President. He is a member of the South Bend Chapter of the National Association of Cost Accountants and was its Secretary for two years.

Also elected were Larry Haffner, South Bend Bait Company, 1st Vice-President; Fred Ebeling, Dodge Manufacturing Co., 2nd Vice-President, and Harold West, Indian & Michigan Electric, Counsellor.

Northern Wisconsin-Michigan Credit Men Elect New President

Green Bay: The results of the annual election of officers was received recently. F. M. Head, Aluminum Goods, Manufacturing Company, was elected President. Other officers elected were N. J. Michels, Cohodas Brothers Co., Vice-President; Carl Cavil, Bank of Green Bay, Treasurer and G. L. Ware, Straubel Paper Co., Councillor.

Toledo Credit Men Hold Golf-Dinner Meeting

Toledo: Credit Round Table meetings being discontinued during the summer months, The Toledo Association of Credit Men held a golf and dinner meeting on July 11 at the Chippewa Country Club.

The main afternoon attraction, of course, was the golf, which was followed by a chicken dinner. Awards were presented to the winners of the forecasting survey ending June 30, 1946. Movies were shown and there were prizes for everyone.

Charleston Bowling Team Heads Service League

Charleston: The Charleston Association of Credit Men's Bowling Team, of the Service Clubs' League of Charleston, West Virginia, under Captain Roy H. Arthur, won the 1945-46 Championship by two games. The Service Clubs' League is composed of twelve teams, and the Credit Men's Team won 81 games and lost 18. This team also won the Championship in 1944.

J. C. Bright, Charleston National Bank, led the team with an average of 180. Roy H. Arthur and A. R. Hawks, both of the Kanawha Manufacturing Company, were next with 167 and 164 respectively; Byron Morris, Dun & Bradstreet, Inc., was next with 161, and the fifth man on the team was R. S. Richardson, Charleston Hardware Company, with a score of 160.

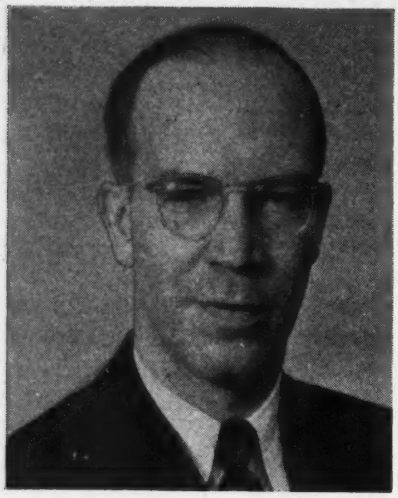
Uncle Sam's Payroll

Consolidated table of Federal personnel inside and outside continental United States employed by executive agencies during May 1946, and comparison with April:

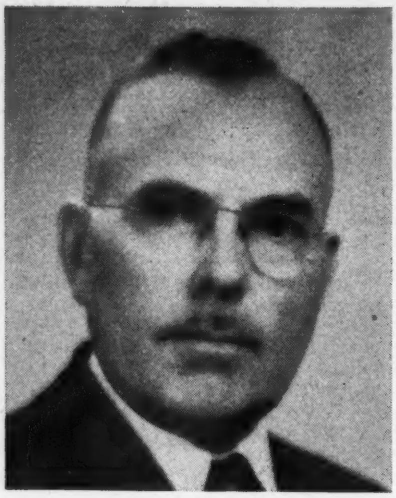
Department or Agency	1946		Increase	Decrease
	April	May		
Executive Office of the President				
Bureau of the Budget	779	773		6
Executive Departments (Except War and Navy Departments)				
Agriculture Department	87,632	92,273	4,641	
Commerce Department	35,755	35,860	105	
Interior Department	48,022	49,623	1,601	
Justice Department	24,842	24,288		554
Labor Department	35,072	35,389	317	
Post Office Department	482,246	484,827	2,581	
State Department	19,613	20,202	589	
Treasury Department	109,303	108,555		748
Emergency War Agencies				
Committee on Fair Employment Practices	26	[1]0		26
Office of Alien Property Custodian	706	742	36	
Office of Defense Transportation	120	99		21
Office of Inter-American Affairs	611	573		38
Office of Price Administration	33,262	34,332	1,070	
Office of Scientific Research and Development	715	639		76
Office of War Mobilization and Reconversion	192	183		9
Petroleum Administration for War	54	[2]0		54
Selective Service System	15,176	14,784		392
War Shipping Administration	3,889	3,768		121
Postwar Agencies				
Civilian Production Administration	2,851	3,333	482	
National Wage Stabilization Board	944	961	17	
Office of Economic Stabilization	32	40	8	
War Assets Administration	30,391	32,427	2,036	
Independent Agencies				
American Battle Monuments Commission	39	39		
American Commission, Protection of Monuments in Europe	6	6		
Civil Aeronautics Board	412	408		4
Civil Service Commission	4,326	4,234		92
Employees' Compensation Commission	566	564		2
Export-Import Bank of Washington	98	102	4	
Federal Communications Commission	1,339	1,337		2
Federal Deposit Insurance Corporation	1,200	1,172		28
Federal Power Commission	727	739	12	
Federal Security Agency	31,814	31,735		79
Federal Trade Commission	504	501		3
Federal Works Agency	22,340	22,825	485	
General Accounting Office	14,377	14,244		133
Government Printing Office	7,301	7,259		42
Interstate Commerce Commission	2,217	2,214		3
Maritime Commission	9,545	9,914	369	
National Advisory Committee for Aeronautics	5,467	5,640	173	
National Archives	359	360	1	
National Capital Housing Authority	274	268		6
National Capital Park and Planning Commission	15	15		
National Gallery of Art	288	299	11	
National Housing Agency	15,493	16,357	864	
National Labor Relations Board	977	1,005	28	
National Mediation Board	100	104	4	
Panama Canal	28,630	28,745	115	
Railroad Retirement Board	1,931	1,969	38	
Reconstruction Finance Corporation	11,926	11,876		50
Securities and Exchange Commission	1,196	1,186		10
Smithsonian Institution	434	433		1
Tariff Commission	245	247	2	
Tax Court of the United States	120	121	1	
Tennessee Valley Authority	11,052	11,087	35	
Veterans' Administration	154,428	166,116	11,688	
Total, excluding War and Navy Departments	1,261,979	1,286,792	27,313	2,500
Net increase, excluding War and Navy Departments			24,813	
Total, including War and Navy Departments				

[1] All employees were furloughed at the end of the last pay period for the month of April because of lack of funds.

[2] Included in the Interior Department report.



CLEVELAND
W. T. McWade
Assistant Cashier
UNION BANK OF COMMERCE



ST. PAUL
Gunder Johnson
Secretary
MUTUAL DEALERS WHOLESALERS, INC.

NEWARK
Henry Dolch
Asst. Vice-President
LINCOLN NATIONAL BANK

SAN DIEGO
J. H. Barton
Secretary-Treasurer
ELECTRIC SUPPLIES DISTRIBUTING CO.

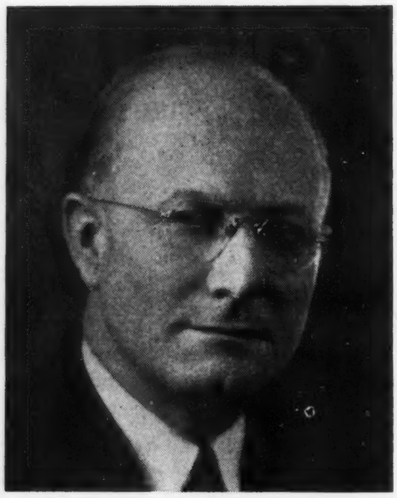
ASSOCIATION

On Catfish Row, in summertime, the song would tell you, the livin' is easy.

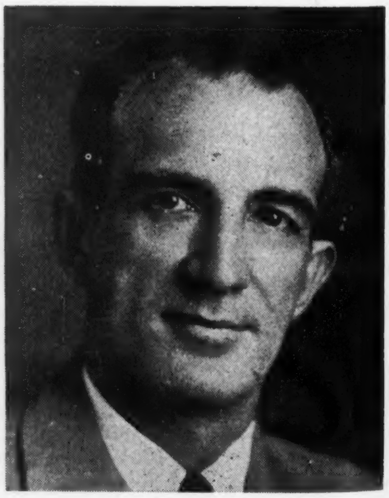
That may be. But in the office of the Credit Executives of the many firms throughout the country the livin' is never particularly easy, and is just as likely to be most difficult in summertime as at any other time.

Whatever the time of year the Credit Man must be alert, for the financial structure of his firm, the livin' of many, many people depends on his good judgment. And the Credit Men's Associations throughout the country are just as alert, just as efficient, just as much on guard in summer as in winter to help the Credit Man to use his good judgment to the best effect.

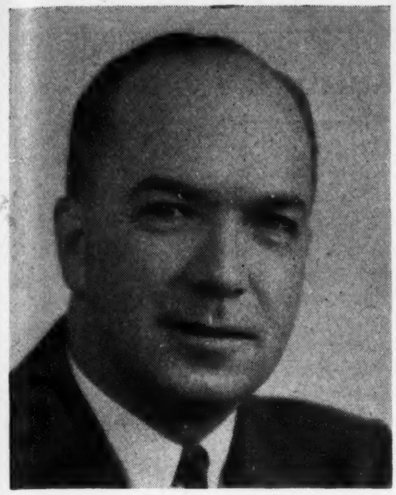
BUFFALO
Richard G. Strickland
Credit Manager
BUFFALO SLAG CO., INC.



ELMIRA
Ernest E. Bisbing
Credit Manager
AMERICAN-LA FRANCE-FOAMITE CORP.

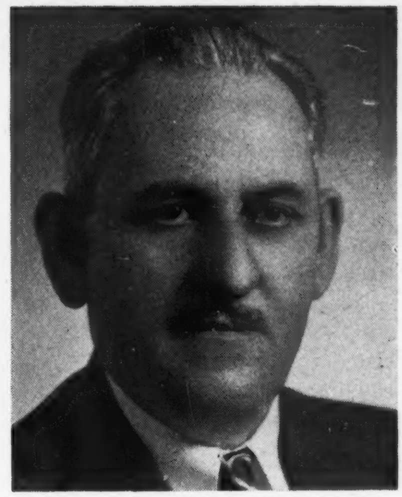


ATLANTA
R. F. Anderson
Credit Manager, Southeastern
WESTINGHOUSE ELECTRIC SUPPLY CO.



MILWAUKEE
William M. Wanvig
Secretary
GLOBE-UNION, INC.

OAKLAND
Raeford Bailey
Secretary
MOTHER'S CAKE AND COOKIE CO.



ST. LOUIS
R. C. Gordon
Credit Manager
SHELL OIL CO. (ST. LOUIS DIVISION)

PRESIDENTS

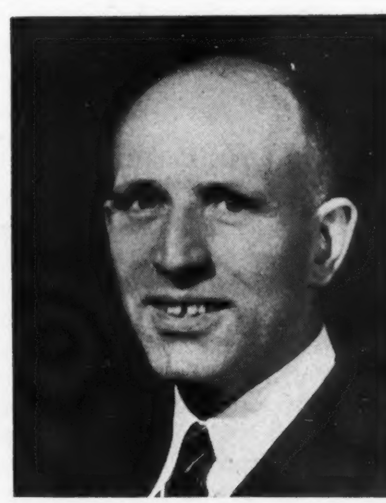
Here you see the likenesses of fourteen more men who have been chosen to guide those Associations through another year. While Catfish Row is relaxing in its easy summertime livin', these men are organizing committees, planning meetings, consulting with this member and that so that the coming year shall be one of even greater success.

The Credit Man never lives an easy life, and the Association President, with his own living to make, and the livelihood of others to safeguard and all the association activities to supervise as well, could show the songwriters very vividly how much difference there is in summertime, or any other time, between life on Catfish Row and life in an Association President's office.

KNOXVILLE
R. N. Byrd
Assistant Secretary
C. M. McCLUNG AND CO., INC.

STOCKTON
Fred W. Stone
Credit Manager
HICKINBOTHAM BROS.

SACRAMENTO
Ward C. Krebs
Assistant Cashier
AMERICAN TRUST CO.



FRESNO
William Ashman
Credit Manager
HAAS BROTHERS

Incentives for Executives

(Continued from page 18)

purchase by the company, was retired.

As a result of the completion of the first step, numerous benefits accrued to all concerned. The group causing the trouble was bought out. The remaining elderly stockholders received part cash, part preferred stock and retained 25 per cent of their common stock. The younger men who were in active management secured control of the business—and the company reduced its obligation to stockholders by retiring part of the common stock.

Step 2. Eighteen months after Step 1 was taken, we were asked by the management to negotiate the purchase of all of the common stock remaining outside the hands of the management (25 per cent)—all held by the second group of elderly stockholders.

An agreement to sell was reached, a price was agreed upon and a 10-year corporation bank loan was arranged to finance the purchase. The company purchased and retired the stock, leaving the two managers—who once owned no part of the company—possessing 90 per cent of the outstanding common stock. The remaining 10 per cent was owned by other executives. Once again, all benefited. The Managers secured the ownership they deserved and the elderly stockholders secured cash with which to diversify their risks, protect their old age and provide for estate taxes.

Better Than Profit Sharing

As an incentive, stock ownership is far more effective than any mere profit-sharing device. The latter has a feast-or-famine quality that lowers its value in the eyes of management. Profits, as we have seen during the war years, can boom beyond the point where management itself can assume full credit for the rise—and in such periods, the incidence of taxes is also great. Conversely, in a downward turn of the business cycle, sound and aggressive management may *conserve* rather than build, but in any plan based on profits only, this contribution would be overlooked. But where incentives take the form of stock participation, the management which looks to the future as well as to the present receives its just reward.

News of the Credit Women's Clnbs

Minneapolis Plans Large Inter-Club Meet In October

Minneapolis: An Inter-Club Credit Women's Conference is in the making at Minneapolis. Planned for October 19th and 20th of this year, the conference will open Saturday morning with a panel of speakers on current credit problems, followed in the afternoon by an open forum.

The conference will be highlighted by a Saturday evening banquet, with a prominent principal speaker and unusual entertainment. Both the Saturday luncheon and banquet will be held at the Hotel Radisson, convention headquarters. The official business meeting of the conference will follow immediately after the Sunday morning breakfast.

All credit women have been invited and with responses already received from a majority of the clubs, Minneapolis reports that a record-breaking attendance is expected.

Boston: The Credit Women's Club of Boston had their first annual get-together Monday evening, June 3rd. A delicious turkey dinner was served at one of Boston's popular restaurants. After dinner, the group enjoyed a walk through Horticulture Hall to see the display of Iris. The remainder of the evening was spent at the "Pops" concert, which was enjoyed by all.

The first meeting in the Fall will be held in October.

New Orleans: The June monthly meeting was held at the home of Bonnie Waffenschmidt on Thursday, June 20. She graciously offered her garden for the annual picnic, which is usually held in the park. The Entertainment Committee planned a fine supper and a large gathering was in attendance.

Katherine Bridges, Pittsburgh Plate Glass Co., has been appointed Secretary of the New Orleans Credit Women's Group.

The Credit Women's Club of Denver held the July 15 meeting at Bennett's Restaurant and it was followed by the Annual Theatre party at the World Famous Elitch Gardens. Fine weather contributed to its success in contrast to a pouring rain last year.

Omaha: The Credit Women's Club of Omaha held their final meeting of the season at the Fontenelle Hotel, Monday evening, June 11. After a short business meeting, Mrs. Elsie Wally, Omaha Crockery Co., was installed as president for the coming year. Other officers installed were Mrs. Helen Bartell, Alemite Co., Vice-President, Mrs. Eleanor Kindell, Sterling Electric Co., Secretary and Miss Mabel Planck, Hudson Mfg. Co., Treasurer. Club members presented Miss Jeannette Squires, Standard Furnace & Supply Co., retiring president, with a gift for her outstanding leadership this past season. Mrs. Frances McChesney Key was guest speaker for the evening and dinner guests were Mr. and Mrs. Gus Horn. Regular monthly meetings will be resumed in September.

Bridgeport: Miss Anna May Dean, President of the Bridgeport Credit Women's Group, held a meeting of the Board of Directors recently. At this meeting committee appointments were made and a number of activities planned for the Fall. Their annual summer outing will be held July 28th at Rye Beach Playland, N. Y.

Chicago: The many friends of Rose C. Schackmann were shocked and grieved to learn of her sudden passing on Sunday, June 30. Just two days before, she had been at her desk at the Wilcox & Follett Company, publishers. As a regular attendant of Credit Association conventions, she was well known, and beloved by all who knew her winning smile and friendly personality. The Credit Women's Club of Chicago sincerely mourns her passing and recalls that she was the second president of the club, the first woman member of the Chicago Association of Credit Men's Board of Directors, and a past Chairman of the National Credit Women's Executive Committee.

Oakland Charter Member Ends Long Association With Daily Newspaper

Oakland: V. D. Stuart, for the last twenty years Credit Manager of the Oakland Tribune, retired on June 29, after forty years of service with the paper.

Mr. Stuart was a charter member of the Wholesalers' Credit Association of Oakland in 1926 and has been active in Association affairs ever since. He was a National Director from 1941 to 1944. Mr. Stuart is now looking forward to doing all the things he has had no time to do before, but will continue to keep in close touch with Association affairs.

Employee Loyalty —Business Asset

(*Continued from Page 27*)

and compounded properly. In other words, the doctor was more interested in rendering service to the public and his patients, in particular, than he was in any profit which might be derived from the enterprise. He employed as manager of the store a young man who had recently graduated from a school of pharmacy and tried to inspire in him the spirit of service. Eventually, when he was well along in years, he sold the store to the young man who, at that time was managing it. From that day to this, a period of somewhat more than a century, the spirit of service has survived in the business. It has continued to be the custom to employ part time those who are attending the local high school. Many a man who has become a physician made his decision to study medicine because he worked in the drug store and become acquainted with the local physicians. Others have become registered pharmacists because the part time work aroused in them an interest in pharmacy.

This store has served to guide many individuals into callings for which they were fitted. Only those from the local high school or freshly graduated from some school of pharmacy have been hired. Every employee knows that if he shows sufficient ability he may become the manager of the store. In one respect the managers of this store are unique. No one of them has been related by blood or by marriage to any other. This has led to a feeling among the employees that in this company merit, rather than relationship or influence, really counts. It is needless to state the degree of employee loyalty is high. There is also good reason to believe this loyalty has had a great deal to do with the fact this is the oldest drug store in the county, perhaps even in the state.

Outsiders as Executives

Bringing in an outsider to fill an important executive position may upset all that has been done in the past in building up employee loyalty. A man started a little retail business. As it grew and prospered and his brothers became old enough, he took one after another into partnership until five brothers owned the company. The small town in which the first store was located proving too small a scope for so many partners, other stores were started, each brother becoming manager of a store but all being partners in the business as a whole. It became the policy of the company to hire young people just out of school and to train them, rather than to look for more experienced employees. More and more stores were started as qualified managers for them were developed until there were stores in three different states.

Employee loyalty remained high as long as the original policy was maintained. One brother after another died until only the youngest was left. All continued to go well until a son-in-law of this youngest brother was taken into the business and given a high executive position without being required to start at the bottom and work up, as all other employees, even including the last of the brothers, had done. This new man did not have the personality, the experience or the ability to fill the position in which he was placed. In addition, he labored under the handicap that everybody believed he was given it because he had married the daughter of the big boss. At once, there was a lessening of employee loyalty. The heirs of the other brothers, even though they might have planned to make the business their life work, not only quit any jobs they may have held in the organization but most of them sold their holdings in the firm as soon as they could. Some stores were closed. Others were bought by the partner managers. Today, that company is only a shadow of what it could have been had the original policy been continued, especially the policy of hiring no outsiders for high executive positions but requiring everyone to work up from the bottom and to demonstrate his ability.

Personality Again

It also demonstrates how much depends upon the personality of the chief executives of a company. Even though this newcomer in the business was given a position to which the employees did not believe he was really entitled, had he possessed a personality which enabled him to inspire confidence and win loyalty, the chances are the effect upon employee loyalty would not have proved so disastrous. It would have required a truly extraordinary personality, however, to have fitted into the picture smoothly, harmoniously and without friction.

Case histories indicate that where there is great employee loyalty the chances of a business succeeding and of continuing in existence long after the founder has died are great. The loyalty continues to the memory of the founder or to the business itself for generations. One of the reasons why that son-in-law, taking an important executive position, caused all the disruption he did appears to be that so many of the older employees felt the youngest brother was disloyal to the memory of his older brothers when he brought a son-in-law into the business, a young man who had not demonstrated his ability.

Loyalty and Credit

It would be a great help if, when determining long range credit ratings for any firm, a simple formula could be found for evaluating employee loyalty. No such formula, however, appears to be feasible. If the labor turnover rate is virtually nil, it can be taken for granted, as a rule, there is a high degree of employee loyalty. As a company grows in size, however, the employee loyalty may lessen. Many a high executive in a concern which, when it was smaller, enjoyed the utmost in employee loyalty would be surprised to learn what the average employee now thinks of the company. On the other hand, one runs across cases where there is a great deal of faultfinding among the employees and at the same time a real pride in working for the company. Apparently, the employees do not like the management any too well but because the company has enjoyed a reputation in the industry second to none there is a loyalty to this reputation. It is akin to what is found in famous military units. The men may not like their officers, they may not be any too loyal to them, but

they feel they must maintain the reputation of the unit at any cost.

If there is a relatively high labor turnover it may not mean a lack of loyalty on the part of employees. If each employee who leaves does so to accept a better position than his employer can give him, especially if the employer has helped him to secure that position, a high labor turnover, certainly, does not mean low employee loyalty. More likely it means just the reverse.

On the other hand, if employees never remain with a given employer long and leave to take jobs little if no better than they had with him, employee loyalty can be assumed to be low. If the degree of loyalty depends upon one individual, rather than upon a group, the future regarding loyalty is doubtful. Present loyalty may continue and it may not. One thing, however, is certain, net profits and the ability to survive are greater where there is real employee loyalty than where there is not. In other words, employee loyalty often proves to be the greatest asset any business man can have.

E. B. Moran Presents Five-Year Plaque to Terre Haute Credit Men

Terre Haute: More than 60 members and guests of the Terre Haute Association of Credit Men were present for the presentation of the bronze plaque awarded the association for the largest gain in membership in its class during the past five years. E. B. Moran, Manager of the Central Division, NACM, made the presentation at the dinner meeting at the Terre Haute House which concluded this year's program.

A series of slides on the work of the national organization was shown by Mr. Moran, and the moving picture "What would you say?" completed the program.

New Rochester Board Is Headed by W. B. Sullivan

Rochester: Walter B. Sullivan, Lincoln Rochester Trust Co., has been elected President of the Rochester Association of Credit Men.

Other officers elected at the same meeting were Carl F. Hammond, Erskine-Healy, Inc., First Vice-President; Roy L. Guyer, Jackson and Perkins Co., Second Vice-President; and Alan L. Wehrheim, Michaels, Stern and Co., Treasurer.

Mr. Sullivan recently completed 25 years of service with his firm, and is a past president of the Rochester Chapter, American Institute of Banking, and the Rochester Retail Credit Association.

Business Protects the Public

(Continued from page 29)

such schemes. Some so-called labor publications also have fallen into this category of advertising. The leaders of labor have disclaimed any and all connection with such papers and magazines.

In maintaining accuracy in advertising the Bureau enjoys the close cooperation of the newspapers in both display and classified sections. One of the methods employed in heading off suspicious or misleading advertising claims is that applied by the newspapers who refuse to run copy offered. Radio stations also maintain vigilance and the claims made in "commercials" over the air are receiving growing attention.

Bulwark for Business

The great role of the Better Business Bureau here and in other communities is to set up voluntary standards of advertising and selling with the cooperation of business and then see to it that the standards are maintained. The Bureau thus becomes a bulwark of the efforts put forth in America to build confidence in and increase the strength of the private enterprise system. It provides a channel through which business does an important public relations job with the public. It protects the public against the swindler and it protects business from unfair or unscrupulous competition. How well the Bureau is equipped to meet this challenge may be seen in its many thousands of files on specific practices. Its actual work is directed and carried on by experienced management and personnel.

Savings Problem

The poser for the nation which furnishes the Bureaus with their big job at the present time is, as stated in the opening, the great accumulation of wartime savings. On January 9 more than 300 business leaders headed by R. R. Deupree, president of Procter & Gamble Co., Cincinnati, met in New York at the Waldorf-Astoria Hotel to develop a program for Safeguarding Wartime Savings. Following a conterence at which a letter from President Truman praising the move was read and representatives of business, labor, agriculture and various regulatory and prosecuting agencies of government, state and federal, spoke, the deliberations were broken up into three sections where the subjects of finance, manufacturing and retailing or distribution were discussed. It was the decision of the conference, arrived at through resolutions passed at the three seminars, that the problem of protecting wartime savings furnished business leadership with its greatest problem and its greatest opportunity to build goodwill. The Bureaus were called on to see to it that the program of the conference was carried out.

Of the wartime accumulation of war bonds, savings, investments and cash, enough is in the hands of veterans and others inexperienced in matters of finance to create a swindlers' holiday. Many veterans and war workers are youthful with no previous experience with money. It would be tragic to have them suffer the loss of their accumulations and with them their confidence in business and the nation. It is the aim of the American business man working through his Bureaus and cooperating bodies to avoid just such a development with its great damage to public morale.

Calls Almost Double

The inquiries and complaints coming to the Better Business Bureau of New York City are growing steadily. Within the past fifteen months the annual load of such calls for assistance has risen from a rate of 14,000 annually to a rate of more than 27,000 annually. More than a year ago the Board of Directors of the Bureau sensed the situation and provided for it by obtaining an increase in funds obtained through voluntary memberships and at the same time raised a special fund to deal with the post-war problem when and if it had to be met. The Bureau enters its twenty-fifth year on June 1. It has on its membership rolls nearly 500 firms. These represent a cross section of New York business. It is apparent that business here intends to support the Bureau sufficiently to meet any situation which arises.